HSBC France

Annual Report and Accounts 2009

HSBC

The world's local bank

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The HSBC Group

CCF joined the HSBC Group in July 2000 and changed its legal name to HSBC France on 1 November 2005.

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises around 8,000 offices in 88 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 121 countries and territories.

HSBC provides a comprehensive range of financial services and serves around 100 million customers through two customer groups: Personal Financial Services and Commercial Banking; and two global businesses: Global Banking and Markets, and Private Banking.

In 2009, HSBC's profit before tax was USD 7,079 million and USD 13.3 billion on an underlying basis and excluding goodwill impairment. Profit attributable to shareholders of the parent company was USD 5,834 million. Total assets were USD 2,364 billion at 31 December 2009.

Geographical distribution of results – Profit before tax:

Year ended 31 December 2009

	USDm	%
Europe	4,009	56.7
Hong Kong	5,029	71.0
Rest of Asia-Pacific	4,200	59.3
Middle East	455	6.4
North America	(7,738)	(109.3)
Latin America	1,124	15.9
Profit before tax	7,079	100.0

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

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

In 2009, HSBC France once again demonstrated the strength of its universal banking model. In France, Retail Banking, Global Banking and Markets, Asset Management and Private Banking activities capitalised on the HSBC Group's strengths – its leading international presence, its solid financial position and its innovation in banking and technology.

HSBC France's development, organisation and systems

2010 Development Plan

The "*Développement 2010*" business plan announced in June 2008, which provides continuity with the Strategic Plan unveiled in early 2005, reaffirms HSBC's commitment to expanding its retail banking operations in France.

It implements the HSBC Group strategy in mature countries by concentrating on the strategic core customer segments with strong international connectivity while capitalising on its special position as a leading international bank and on the Group's financial strength to increase its market share in target segments and regions.

The plan objectives are to expand HSBC France's banking and technological capabilities, to boost its growth and to improve its performance through substantial financial and human resources investments and by adopting new organisational principles.

HSBC Group's Global Banking and Markets, Asset Management and Private Banking activities in France have already demonstrated the effectiveness of the Group's strategy, through improved results since the implementation of the strategic plan unveiled in early 2005. In Retail Banking, HSBC France is enjoying strong business momentum. Since 2007, this has increased its share of customers in its core targets and boosted business volume appreciably.

HSBC France continued to specialise the distribution network to increase expertise and to enhance customer service. In keeping with business plan targets, 51 "*Centres d'Affaires Entreprises*" (CAE) for SMEs, alongside the 10 Corporate Banking Centres (CBC) for companies with revenues of more than EUR 30 million under the programme launched in 2008, as well as 19 HSBC Premier Centres, out of 30 included in the development plan, have been created.

The range of online financial products and services also expanded in 2009 with the launch of Business Direct, the first direct branch dedicated to small businesses, Premier International Direct, an innovative telephone and online banking service for HSBC Premier customers, and *Compte Epargne Direct*, a 100 per cent online savings account product for retail customers.

With its global stature, HSBC enjoys an international image that sets it apart from the competition in France. In fact, 68 per cent of prospective customers view HSBC as a dynamic bank, and more than half of those surveyed think HBSC has differentiated itself from other financial institutions. In 2009, HSBC's name recognition in France was stable overall, at 71 per cent at year-end[1].

Further simplification of the structure of the HSBC France group

Main changes to organisational structures within the HSBC France group

On 31 July 2008, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie were merged with HSBC France. In 2009, the operational merger process was completed. These mergers enable HSBC France to carry out its Retail Banking operations under a single legal and operational entity.

As part of the reorganisation of its equity derivatives business announced in April 2009, HSBC France sold these operations to HSBC Bank plc Paris Branch in November 2009. This transfer gives the business a sounder, broader financial base to underpin its growth. Work on migrating operations will continue in 2010. The process should be completed with the merger of the two entities affected by the transaction, HSBC Securities (France) SA and HSBC Financial Products (France) with HSBC France.

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

After obtaining approval from the Bank of Algeria and the Algerian tax authorities concerning the terms of the transfer, the Algiers branch was

1 *Source: Synovate survey – December 2009 – sample of 600 respondents with net annual household income of EUR 50,000 or more.*

transferred to HSBC Bank Middle East Ltd on 2 December 2009 for reasons of efficiency within the HSBC Group. HSBC Bank Middle East Ltd benefits from considerable expertise in the Middle East and is developing strong business links with North Africa. The price covered the amount of contributions to capital given to the branch and costs incurred by HSBC France.

In December 2009, HSBC France entered into an agreement for the sale of two buildings located at 103 avenue des Champs-Elysées and 15 rue Vernet, for EUR 400 million. The agreement covering these two buildings was signed with French Properties Management. Subject to meeting the required conditions, the properties will be sold to a subsidiary of a French OPCI (*Organisme de Placement Collectif Immobilier* – real-estate collective investment scheme) created for this purpose. HSBC France agreed to a 9-year lease, with the option to terminate the lease at the end of the fourth, fifth and sixth years. After satisfaction of any necessary conditions, the deal is scheduled to close on 25 February 2010.

Further streamlining of the HSBC France group

The programme to simplify the HSBC France group structures also continued, with the aim of dissolving units that no longer serve a purpose and selling or merging structures within the group in order to enhance the organisation by business line. Over the past four years, 59 subsidiaries have been removed from HSBC France's organisational chart.

Solid profits with a sharp increase on a comparative basis

Although 2009 was marked by the most severe recession since the Second World War, it was a transition year in many respects. The year started with fresh turbulence in the global financial markets, but gradually eased following the exceptional measures taken by central banks and governments.

The Personal Financial Services and Commercial Banking businesses were hurt by lower sales volumes, shrinking industrial investment and rising unemployment, all of which led to a considerable increase in loan defaults. The Global Banking and Markets business saw higher profits on the back of improved conditions in the financial and capital markets, but the recession dampened risk appetite and demand for credit.

Despite the sluggish economic and financial climate, HSBC France was able to manage its risks effectively and grew profits, thanks largely to buoyant capital markets activity; Retail Banking business continued to expand.

All of HBSC France's businesses generated a profit before tax in 2009.

HSBC France's results are discussed below, divided into the following two sections:

– HSBC France's consolidated financial statements under IFRS, as described in Note 1 to the consolidated financial statements[1]; and
– HSBC's operations in France, which include the French branch of HSBC Bank plc and its insurance subsidiaries: HSBC Assurances Vie (France) and HSBC Assurances IARD (France).

HSBC France's consolidated results (legal entities)

HSBC France generated a pre-tax profit of EUR 406 million in 2009, up 104 per cent from the prior year on a comparative basis restated for the sale of regional banks in 2008[2]. Excluding the negative effects of the revaluation of the company's own debt, pre-tax profit amounted to EUR 551 million, up 273 per cent from the prior year.

All of HSBC France's businesses contributed to this increase in profits, which reflects the shrewdness of the company's diversified business model and its ability to generate a profit during all phases of an economic cycle.

Net operating income totalled EUR 2,208 million, up 23 per cent from pro forma 2008. This improvement was driven by excellent performance from the Global Banking and Markets business, as well as the ongoing expansion of the Retail Banking business under the first effects of the 2010 Development Plan.

The cost of risk rose to EUR 178 million in 2009 as a result of the deteriorating economic climate, although it remains a moderate 0.5 per cent of the loan book.

Operating expenses fell to EUR 1,657 million in 2009, down 6 per cent from 2008 but up a slight 0.3 per cent on a comparative basis.

Operating profit came in at EUR 406 million, and the profit attributable to shareholders of the parent company was EUR 347 million.

1 *See page 70.*
2 *Unless stated otherwise, the terms "pro forma" and "comparative basis" mean after restating the 2008 results so that they do not include the sold regional banks nor the gain on the sale of these banks.*

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

HSBC France had EUR 4.4 billion of regulatory capital at 31 December 2009, which consisted entirely of core Tier 1 capital.

The company continued to use its capital more effectively throughout the year, and obtained approval from the French Regulatory Authority (*Commission bancaire*) to use the advanced internal ratings-based approach to calculate the risk-weighted assets for credit risk exposure in its corporate loans portfolio. The risk-weighted assets fell 25 per cent to EUR 35.6 billion at 31 December 2009. HSBC France did not need to use the French State aid offered to the banking industry and ended the year with a consolidated core Tier 1 ratio of 12.2 per cent, reflecting a solid financial structure in the face of an uncertain financial environment. The company's liquidity ratio was 117 per cent, significantly above the French regulatory minimum.

Results of HSBC's operations in France [1]

HSBC's operations in France, which include amongst others the Insurance businesses, generated a pre-tax profit of EUR 548 million in 2009, up 82 per cent from the prior year on a comparative basis. Restated for the accounting adjustments [2], pre-tax profit totalled EUR 769 million, up 172 per cent from the prior year.

HSBC France contributed EUR 2,475 million of revenue to the Group in 2009, an increase of 16 per cent from pro forma 2008.

The cost of risk at year-end was the same as that for the consolidated company (legal entities), EUR 178 million or 0.5 per cent of outstanding loans. Although this was higher than the previous year, especially in the Commercial Banking business, it remained at a moderate level.

Careful cost controls in 2009 limited the rise in operating expenses to 2 per cent for a total of EUR 1,750 million. This gave a cost efficiency ratio of 65 per cent – a sharp improvement on a comparative basis (81 per cent in 2008).

Business segment results [3]

Personal Financial Services

Pre-tax profit at the Personal Financial Services business amounted to EUR 40 million, up 16 per cent from the prior year on a comparative basis due to higher revenues and effective cost management. Excluding a sizable provision related to market-wide litigation, the cost of risk remained at last year's relatively low level.

Revenue grew 6 per cent in spite of a decline in fee income due to tough market conditions, illustrating the pertinence of the company's strategy to focus on Premier banking customers and expand online banking.

HSBC France's solid financial structure and global reach attracted 28,000 new Premier banking customers in 2009, an increase of 11 per cent despite turbulent economic conditions.

This growth in the customer base pushed deposits up 2 per cent to EUR 10.4 billion, with an even more impressive 7 per cent jump in demand deposits boosted by the spread of online banking. In 2009 HSBC France introduced an online savings account (*Compte Epargne Direct*), as well as a novel telephone and online banking service (Premier International Direct) for HSBC Premier customers around the world.

The bank also enhanced its product line with new mutual funds: World Selection. Its wealth management business was bolstered by the effective positioning of its life insurance products, which saw a 14 per cent rise in inflows during the year. However, the percentage of inflows into unit-linked equity contracts fell to 10 per cent at end-2009, down from 24 per cent at end-2008, as the grim economic climate drove customers towards more secure, Euro-denominated investments.

HSBC boosted its brand recognition in France through an ambitious marketing campaign targeted at Premier customers. HSBC is now recognised as the most dynamic and differentiated bank among this customer segment [4].

1 *The discussion on pages 4 to 6 relates to France's contribution to the HSBC Group results.*
  – *The accounting scope was updated on 1 January 2007 and now includes:*
    • *HSBC France, including entities legally owned by HSBC France but located outside France (mainly Asset Management activities outside France and CMSL in the UK) – i.e. the total legal scope – and the HSBC Bank plc branch in Paris, which from December 2007 owns HSBC Assurances Vie (France) and HSBC Assurances IARD (France), and excluding the acquisition borrowing costs recognised by the HSBC Paris Branch; and*
    • *the dynamic money market funds that are over 50 per cent-owned by the HSBC France group and consolidated since the first quarter of 2008.*
  – *Financial data is presented under IFRS as adopted by the HSBC Group.*

2 *The credit spread on own debt, the discounting of stock options to present value, an impairment on HSBC shares, and the amortisation of the interest rate swaps termination payments on the sold regional banks.*

3 *Cf. Note 10 to the consolidated financial statements pages 94 to 98.*

4 *Synovate survey, December 2009. Cf. page 2.*

Commercial Banking

Pre-tax profit at the Commercial Banking business totalled EUR 74 million in 2009, a year marked by anaemic economic growth and low interest rates. This healthy profit was driven by EUR 591 million of revenue, up 2 per cent from the prior year on a comparative basis. Operating expenses held fairly steady, edging up 2 per cent. The cost of risk rose a modest 6 per cent during the year as a result of the weak economy, but remained a relatively low 1 per cent of risk-weighted assets.

Revenue at the Commercial Banking business was supported by the first tangible results of the strategy introduced in 2009 to open specialised banking centres. The bank opened 51 business centres for SMEs (*Centres d'Affaires Entreprises*) during the year, while revenue at the 10 Corporate Banking Centres grew 13 per cent from the previous year.

HSBC France has attracted 11,000 new customers thanks to its global reach and 56 International Banking Centres supporting French companies' operations in other countries. 21 per cent of HSBC France's customers are enterprises with international operations, and it is the primary bank for 39 per cent of its SME customers[1].

HSBC France helped its customers through a challenging 2009 by expanding its medium and long-term loan book by an average of 6 per cent over the year.

The factoring business had an excellent year, with a 45 per cent growth in activity.

Global Banking and Markets

2009 proved to be an outstanding year for the Global Banking and Markets business. Pre-tax profit soared 291 per cent to EUR 672 million, up from EUR 172 million in 2008. This excellent performance was the result of robust capital markets activity and a stronger position in wholesale banking.

Revenue jumped 69 per cent to EUR 1,354 million in 2009, while operating expenses rose in line with growth in the related businesses, reaching EUR 638 million for the year. This resulted in a cost efficiency ratio of 47 per cent.

The cost of risk was EUR 44 million, and while this is higher than the prior year, it is still a mere 0.3 per cent of credit risk-weighted assets.

After the historic financial crisis in 2008, which culminated in Lehman Brothers' bankruptcy in the fourth quarter and a subsequent market dislocation, the capital markets business benefited from a return to relatively normal conditions in 2009. This stabilisation helped push its revenue up 280 per cent to EUR 962 million, on the back of greater customer volumes and a return of liquidity.

The company was also able to reverse some of its provisions for uncertainty in the valuation of some of its trading book positions. The fixed income business benefited from numerous debt issues in the primary market and a corresponding increase in margins. Structured equity derivatives also had a good year, but structured interest rate derivatives suffered from a lack of market liquidity and weak customer flows.

After offsetting the accounting charge for the valuation of hedging instruments (credit default swaps), wholesale banking revenue amounted to EUR 306 million in 2009, up 12 per cent from 2008 restated for this accounting charge. Revenue generated by large French customers worldwide rose 20 per cent. This revenue growth was due to higher margins and buoyant activity in most businesses, including bond issuance, foreign exchange, and primary equity markets.

HSBC France gained substantial market share in investment banking on the back of its solid brand reputation and financial strength, and is now France's second-leading bank for public sector euro-denominated issues[2]. It is also France's fourth-leading equity offerings bookrunner[3] thanks to its leading role in most of these transactions, including issues by BNP Paribas, AXA, and Lafarge. In M&A, HSBC France took the eighth place in 2009 in terms of announced transactions[4].

Asset Management's funds under management reached EUR 84 billion at the end of 2009, up 13 per cent from prior year, driven by the market upturn during the second half-year as well as net new-money mainly from large institutional clients. The market upturn and the diversity of our products range encouraged the return of big European institutional investors to long-term assets in Euro zone and emerging markets. The recovery of inflows to "absolute return" strategies illustrates the revival of interest for strategies disconnected from market evolutions and whose risk is managed.

1 *Companies with turnover from EUR 750,000 to EUR 30 million.*
2 *Dealogic bondware – December 2009.*
3 *Dealogic (Weighted apportionment).*
4 *Thomson Reuters December 2009.*

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

The launch of the HSBC World Selection fund was the dominant product in the year. This new-generation fund is able to adapt itself to every investor's risk profile and provide him with the greatest long-term diversification of his wealth. This fund will soon be available to all clients all over the world thanks to HSBC Group's global distribution capability.

As far as performance is concerned, 2009 showed excellent results, notably on flagship strategies such as Euro zone equity and bonds [1].

Private Banking

Like 2008, 2009 was a tough year for Private Banking. Revenue fell as investors fled to lower risk products with smaller margins. However, the decline in revenue was partially offset by a 19 per cent reduction in operating expenses. Profit for the full year slipped to EUR 2 million.

Assets under management grew 10 per cent to EUR 9.3 billion thanks to a market rebound in the second half of the year.

The robust level of inflows from Private Banking customers residing in France reflects HSBC France's proactive sales and marketing approach during the financial crisis. The various activities within Private Banking coordinated their efforts more effectively so as to offer customers a full range of wealth management services. The bank also set up three-person teams comprised of private bankers, wealth management advisors, and wealth engineers to offer customers personalised advice. Synergies with HSBC France's retail branches also boosted inflows.

As a testament to the skills of HSBC France's Private Banking business, the performance of its mutual funds was again recognised by the market; Lipper ranked all HSBC Private Wealth Managers (HPWM) equity mutual funds in the top quartile [2].

Proposed resolutions

The Board of Directors has drawn up the following resolutions to be presented at the Annual General Meeting of Shareholders on 11 May 2010.

Ordinary business

In Resolution 1, the Board proposes that the Shareholders, having read the Board's management report, the Auditors' report on the financial statements and the reports of the Chairman and the Auditors on the practices of the Board and internal control and risk management procedures, approve the annual financial statements for the year ended 31 December 2009 as well as the transactions reflected in those statements or summarised in those reports.

Resolution 2 concerns the allocation of the 2009 net profit of EUR 550,166,651.43. Along with retained earnings of EUR 3,108,661,983.89, the profit available for distribution amounts to EUR 3,658,828,635.32. The dividend to be paid to Shareholders would be EUR 9.94 per share, for a total distribution of EUR 670,331,930.80. Therefore, retained earnings would amount to EUR 2,988,496,704.52. As the proposed dividend equals the advance dividends decided by the Board on 29 July and 18 November 2009, there would be no final payment.

Resolution 3 proposes that shareholders approve the consolidated financial statements at 31 December 2009 so as to comply with Article L. 225-100 of the French Commercial Code, after having heard the Statutory Auditors' report on consolidated financial statements.

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

Resolutions 5 and 6 propose that shareholders renew the directorships of Mr Jean Beunardeau and Mr Gilles Denoyel for a term of four years ending with the Annual General Meeting that will be called to approve the financial statements of the year ending in 2013.

Special business

Under Article L. 225-129-6, paragraph 2 of the French Commercial Code, the shareholders must consider every three years a draft resolution to make a capital increase reserved for employees of the company and its affiliated companies under the conditions set forth in Article L. 3332-18 of the French Labour Code,

1 *Cf. page 169.*
2 *The Lipper Fund Awards register as part of a series of events across the world, covering 23 countries and regions, the Thomson Reuters Awards for Excellence.*

if the shares held collectively or individually during the lock-up period by employees of the company and companies affiliated with it within the meaning of Article L. 225-180 of the French Commercial Code represent less than 3 per cent of the share capital. At 31 December 2009, employees held no equity interest in the company under the conditions of Article L. 225-102 of the French Commercial Code.

The most recent previous resolution submitted to you pursuant to Article L. 225-129-6, paragraph 2 of the French Commercial Code resulted from the Annual General Meeting of 10 May 2007.

To comply with the aforementioned legal requirements, we ask you in Resolution 7 to decide on the principle of granting an authority to the Board to increase the share capital by issuing shares reserved for participants in the employee share ownership plan.

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

Powers (Resolution 8)

This last resolution is intended to grant full powers to the bearer of an original, a copy or an excerpt of the minutes of this General Meeting to carry out the required formalities.

Senior Executives

Directors and members of the Executive Committee

Christophe de Backer *Chief Executive Officer.*
Age 48. Graduate of the Institut Supérieur de Gestion. He joined HSBC France in 1990 where he held several positions notably in equity markets area, becoming Chairman and Chief Executive Officer of CCF Securities in 1998. In January 2001, he was appointed Senior Corporate Vice-President in charge of Asset Management and Insurance for HSBC France. In September 2005, he was appointed as Chairman of the Executive Board of HSBC Private Bank France. In September 2007, he was appointed Deputy Chief Executive Officer, Deputy to the Chief Executive Officer in all of his duties. Since 1 February 2010, he has been appointed CEO of HSBC France.

Jean Beunardeau *Deputy Chief Executive Officer, Deputy to the CEO, Head of Global Banking and Markets.*
Age 47. Graduated from Ecole Polytechnique, Telecom engineer and Master of Economy, he began his career at the Ministry of Finance, mainly at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC France in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed co-head of CIBM mainly in charge of Corporate and Investment Banking in March 2004. In 2005, he was appointed Senior Corporate Vice-President. In September 2007, he was appointed Head of Global Banking and Markets. Since 1 February 2010, he has been appointed Deputy CEO and Deputy to the CEO, in addition to his current role as Head of Global Banking and Markets France.

Gilles Denoyel *Deputy Chief Executive Officer, Chief Risk Officer.*
Age 55. Graduate of the Ecole des Mines de Paris, the Institut d'Etudes Politiques and the Ecole Nationale d'Administration. In 1981, he was appointed "*Inspecteur des Finances*" (Financial Controller) at the Ministry of Finance. In 1985, he entered the French Treasury, where he successively held responsibilities at the Interministerial Committee for Industrial Reconstruction (CIRI) and in the Insurance Department, before being in charge of the French Privatisation Programme. In June 1996, he joined HSBC France as Chief Financial Officer. He became Group General Secretary, member of the Executive Committee, in charge of Logistic and Operations in 1998 and was appointed Senior Corporate Vice-President Finance in March 2000. In March 2004, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of the support functions and the finance support services. In January 2006, he was appointed Deputy Chief Executive Officer of HSBC France, in charge of the Asset Management activities, the Insurance activities and the non-finance support services. Since September 2007, he has been responsible for all risk management and control activities, and also responsible for relations with the supervisors.

Christophe de Backer

Jean Beunardeau

Gilles Denoyel

Philippe Pontet *Chairman Investment Banking.*
Age 67. He joined HSBC France in 2005 as Vice-Chairman of Corporate Finance Europe. In February 2005, he was appointed member of HSBC France's Board. At the end of August 2007, he was appointed member of HSBC's New European Advisory council. Over the last 30 years he has held a number of leading positions in the French banking and industrial sectors, including Chairman and CEO of the banking group Crédit Industriel et Commercial; Chairman and CEO of Framatome; and Chairman of AREVA prior to joining HSBC in January 2005. Since September 2007, he has been Chairman Investment Banking.

Other members of the Executive Committee

Jacques-Emmanuel Blanchet	Head of Commercial Banking
Xavier Boisseau	Head of Global Markets
Loïc Bonnat	Chief Operating Officer, Global Banking
Caroline Brousse	Chief Executive Officer, HSBC Global Asset Management Europe
Antoine Cahuzac	Senior Corporate Advisor to the Chief Executive Officer
Philippe Duban	Head of Strategy and Organisation
Laurent Facque	Head of Compliance
Philippe Henry	Head of Global Banking
Matthieu Kiss	Chief Financial Officer
Marc de Lapérouse	Head of Legal
Pierre Lebleu	Head of Human Resources HSBC France and Head of Human Resources for Continental Europe, from April 2010
Philippe Moiroud	Chief Operating Officer, Global Banking and Markets
François Mongin	Head of Group Audit France and Head of Continental European Audit, from April 2010
Chantal Nedjib	Head of Corporate Communications
Stephen Pascoe	Head of Personal Financial Services HSBC France and Head of PFS for Continental Europe, from March 2010
Emmanuel Rémy	Chief Credit Officer
Daniel Roy	Chairman of the Executive Board of HSBC Private Bank France
Pierre Ruhlmann	HSBC Technology and Services Officer
Jean-Pierre Wiedmer	Head of Insurance

Composition of the Board of Directors

Composition of the Board of Directors of HSBC France on 1 February 2010 [1]

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

Principal position:
Chairman Europe and Middle East and Head of Global Businesses, HSBC Holdings plc (since 1 February 2010).
Chairman of the Board of Directors, HSBC France (since 1 January 2009).

Other directorships in the HSBC Group:
Chairman, HSBC Bank Middle East (since 15 February 2010). Director, HSBC Holdings plc. Director, The Hongkong and Shanghai Banking Corporation Limited. Director, HSBC Bank plc. Director, HSBC Private Banking Holdings (Suisse) SA. Member of the Supervisory Board and Deputy Chairman, HSBC Trinkaus & Burkhardt AG. Directorships expired in 2009: Director, HSBC Latin America Holdings (UK) Limited. Director, HSBC North America Holdings Inc.

Other directorships outside of the HSBC Group:
Trustee, Future Hope. Member, International Advisors Board of President Arroyo of Philippines.

Résumé:
Executive Director of HSBC Holdings plc since May 2008, joined HSBC in 1980. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002. Head of Global Markets from 2002 to 2003 and Co-Head of Global Banking and Markets from 2003 to May 2006. Appointed a Group General Manager of the HSBC Group in 2000 and a Group Managing Director in 2004. Chairman Europe and Middle East and Head of Global Businesses since 1 February 2010.

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

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

Other directorship outside of the HSBC Group:
Member of the Supervisory Board, S.A. des Galeries Lafayette (since 3 June 2009).

Résumé:
Joined HSBC in 1975 and held various roles in the Middle East, Hong Kong and Asia. In 2000, appointed Senior Corporate Vice-President, Corporate and Transactional Banking for HSBC in France, helping manage the integration of CCF into the Group. Appointed as Group General Manager, became Group Head of Human Resources in 2006. From September 2007 to January 2010, Chief Executive Officer of HSBC France. Since 1 February 2010, Chief Executive, Continental Europe for the HSBC Group and Deputy Chairman of HSBC France.

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

Principal position:
Chief Executive Officer, HSBC France (since 1 February 2010).

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

1 *As far as their directorship at HSBC France is concerned, the address of HSBC France's Directors and Senior Executives is the company's registered office, 103 avenue des Champs-Elysées – 75419 Paris Cedex 08 – France.*
2 *Résumé available on page 8.*

Jean Beunardeau *Born in 1962* [1]
Holds 1 HSBC France share. First elected: 2008. Term ends: 2010 [2].

Principal position:
Deputy CEO, HSBC France (since 1 February 2010).

Other directorships in the HSBC Group:
Chairman of the Board, Foncière Elysées. Director, HSBC Epargne Entreprise. Director, Nobel. Director, HSBC Global Asset Management (France) (permanent representative of HSBC France).

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

Gilles Denoyel *Born in 1954* [1]
Holds 1 HSBC France share. First elected: 2004. Last re-elected: 2006. Term ends: 2010 [2].

Principal position:
Deputy CEO, HSBC France.

Other directorships in the HSBC Group:
Vice-Chairman, HSBC Assurances Vie (France). Director, Halbis Capital Management. Director, HSBC Assurances IARD (France). Director, HSBC Global Asset Management (France). Director, Sinopia Asset Management. Member of the Supervisory Board, HSBC Private Bank France.

Other directorships outside of the HSBC Group:
Director, DCNS. Director, Fonds de Garantie des Dépôts. Director, MEDEF (permanent representative of HSBC France). Member of the Board and Treasurer, Association Française des Banques. Chairman, Groupement des Banques Etrangères en France. Member of the Orientation Committee, Euronext. Directorship expired in 2009: Director, Société de Financement de l'Economie Française.

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

Principal position:
Commercial manager, HSBC REIM.

Résumé:
Joined HSBC France in 1967.

Michel Gauduffe *Born in 1959*
Holds 1 HSBC France share. First elected: 2008. Term ends: 2012.
Director elected by employees.

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

Other directorships in the HSBC Group:
Chairman of the Board, Institution de Prévoyance Vernet. Directorship expired in 2009: Member of the Supervisory Board, HSBC France Sécurité Régularité Equilibre Dynamique.

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

Résumé:
Joined HSBC France in 1981.

1 *Résumé available on page 8.*
2 *Director standing for re-election at the Annual General Meeting to be held on 11 May 2010.*

Composition of the Board of Directors (continued)

Stephen Green *Born in 1948*
Holds 1 HSBC France share. First elected: 2000. Last re-elected: 2007. Term ends: 2011. Resigned from the Board of Directors after the Board meeting held on 16 February 2010.

Principal position:
Group Chairman, HSBC Holdings plc.

Other directorships[1]*:*
Chairman, British Bankers' Association. Chairman, Multinational Chairman's Group. Director, Friends of the Archbishop of Canterbury's Anglican Communion Fund, Inc. Director, The Institute of International Finance, Inc. Director, British Museum. Director, Confucius Institute for Business, London. Director, China Festival 2008. Director, The Hong Kong Association. Director, BASF SE (since 30 April 2009). Member, London Business School. Member, The Prime Minister's Business Council for Britain. Honorary Advisor, Peking University (since 1 March 2009). Directorship expired in 2009: Director, China Now Trading Limited.

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

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

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

Other directorships[1]*:*
Director, Casino Guichard Perrachon. Vice-Chairman, Union du Grand Commerce de Centre-Ville (UCV). Member of the Board of Directors, National Retail Federation (NRF-USA). Elected member, Chambre de Commerce et d'Industrie de Paris. Directorship expired in 2009: Member of the Executive Board, MEDEF.

Résumé:
Director of Galeries Lafayette since 1974. Chairman of Monoprix since 1994. Vice-President of the Conseil National du Commerce since 1991. Chairman of UCV and member of the Chambre de Commerce et d'Industrie de Paris since 2005.

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

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

Résumé:
Joined HSBC France in 1993.

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

Other directorships:
Chairman of the Supervisory Board, Adidas AG (since 7 May 2009). Director, Sanofi-Aventis. Member of the Supervisory Board, Allianz AG.

Résumé:
After a few years with McKinsey, he joined Rhône-Poulenc in 1975 as assistant to the General Manager of the Health Division. In 1987, he was appointed Member of Rhône-Poulenc Group's Executive Committee and General Manager of the Health Division and then in 1992, CEO of Rhône-Poulenc Group. After the merger with Hoechst, he was a member of the Management Board of Aventis from 1999 to 2002 and then Chairman of the Management Board until 30 August 2004. Since this date, he has been a Director of Sanofi-Aventis.

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

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

Principal position:
Executive Vice-President and Chief Financial Officer, Renault Group.

Other directorships:
Director, RCI Banque. Director, Renault Retail Group. Director, Fimalac (since 9 February 2010). Directorship expired in 2009: Avtovaz.

Résumé:
After having held several positions in the French public service, he joined the Finance Department of Renault in 1991. From 1999 to 2003, Senior Vice-President, Chief Financial Officer, Member of the Executive Committee and of the Board of Directors of Nissan. Since January 2004, Executive Vice-President and Chief Financial Officer of Renault Group.

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

Principal position:
Chairman Investment Banking, HSBC France.

Other directorship in the HSBC Group:
Director, Nobel.

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

Principal position:
Customer service, HSBC Mandelieu branch, HSBC France.

Résumé:
Joined HSBC France in 1982.

Marcel Roulet *Born in 1933*
Holds 1 HSBC France share. First elected: 1996. Last re-elected: 2009. Term ends: 2013.
Independent Director. Chairman of the HSBC France Audit Committee.

Other directorships:
Director, France Télécom. Chairman of the Supervisory Board, Gimar Finances SCA. Member of the Supervisory Board, Eurazeo. Censor, Thomson. Directorships expired in 2009: Director, Thales as permanent representative of TSA. Censor, Cap Gemini.

Résumé:
Ingénieur général des Télécommunications. Honorary Chairman of France Télécom. Chairman of France Télécom from 1991 to 1995. Chairman and Chief Executive Officer of Thomson from 1996 to 1997 and Thomson CSF (now Thales) from 1996 to 1998.

Peter Shawyer *Born in 1950*
Holds 1 HSBC France share. First elected: 2005. Last re-elected: 2009. Term ends: 2013.
Independent Director. Member of the HSBC France Audit Committee.

Other directorships:
Independent Director and Member of the Audit Committee, HSBC Bank plc. Chairman, British International. Chairman, Ingenious Media Holdings.

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

1 *Résumé available on page 8.*

Composition of the Board of Directors (continued)

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

Principal position:
Chairman and CEO, Annick Goutal.

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

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

Jacques Veyrat *Born in 1962*
Holds 1 HSBC France share. First elected: 2009. Term ends: 2013.
Independent Director.

Principal position:
Chairman and CEO, Louis Dreyfus SAS.

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

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

Directorships held[1] by the members of the Board of Directors (composition at 1 February 2010)

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

Director's name Principal position	First elected	Term ends	**2009**	2008	2007	2006	2005
Stuart Gulliver Chairman Europe and Middle East and Head of Global Businesses, HSBC Holdings plc Chairman of the Board of Directors, HSBC France	2009	2012	Directorships in the HSBC Group: Chairman: HSBC France. Director: HSBC Holdings plc, The Hongkong and Shangai Banking Corporation Limited, HSBC Bank plc, HSBC Private Banking Holdings (Suisse) SA. Member of the Supervisory Board and Deputy Chairman: HSBC Trinkaus & Burkhardt AG. Directorships outside of the HSBC Group: Trustee: Future Hope. Member: International Advisors Board of President Arroyo of Philippines.	–	–	–	–
Peter Boyles Chief Executive Officer, Continental Europe, HSBC Group Deputy Chairman, HSBC France	2007	2013	Directorships in the HSBC Group: Director and CEO: HSBC France. Directorship outside of the HSBC Group: Member of the Supervisory Board: S.A. des Galeries Lafayette.	Directorships in the HSBC Group: Director and CEO: HSBC France.	Directorships in the HSBC Group: Director and CEO: HSBC France.	–	–
Christophe de Backer Chief Executive Officer, HSBC France	2007	2012	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: HSBC Assurances Vie (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: HSBC Assurances Vie (France), HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman of the Supervisory Board: HSBC Private Bank France. Director: Erisa, Erisa IARD, HSBC Investments (France), Société Marseillaise de Crédit, Sinopia Asset Management.	–	–

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

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	2009	2008	2007	2006	2005
Jean Beunardeau Deputy CEO, HSBC France	2008	2010[1]	Directorships in the HSBC Group: Director: HSBC France, HSBC Epargne Entreprise, Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France). Chairman of the Board: Foncière Elysées. Directorships outside of the HSBC Group: Director: X-Banque, Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.	Directorships in the HSBC Group: Director: HSBC France, HSBC Epargne Entreprise, Nobel, HSBC Global Asset Management (France) (permanent representative of HSBC France). Chairman of the Board: Foncière Elysées. Directorships outside of the HSBC Group: Director: X-Banque, Amicale des Anciens Elèves de Polytechnique, Institut de la Gestion Déléguée.	–	–	–
Gilles Denoyel Deputy CEO, HSBC France	2004	2010[1]	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: HSBC Assurances Vie (France). Director: Halbis Capital Management, HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: HSBC Assurances Vie (France). Director: Halbis Capital Management, HSBC Assurances IARD (France), HSBC Global Asset Management (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: Société de Financement de l'Economie Française, DCNS, Fonds de Garantie des Dépôts, MEDEF (permanent representative of HSBC France). Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Vice-Chairman: Erisa. Director: Erisa IARD, HSBC Investments (France), HSBC Epargne Entreprise, Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Fonds de Garantie des Dépôts. Chairman: Groupement des Banques Etrangères en France. Member of the Board and Treasurer: Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Chairman and CEO: HSBC Asset Management Holding. Chairman of SAS: HSBC Investments FCP (France). Chairman: HSBC Investments (France), Sinopia Asset Management, Halbis Capital Management (France), HSBC Epargne Entreprise. Vice-Chairman: Erisa. Director: Erisa IARD, Sinopia-Société de Gestion, (permanent representative of HSBC Asset Management Holding). Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Association Française des Banques. Member of the Orientation Committee: Euronext.	Directorships in the HSBC Group: Director and Deputy CEO: HSBC France. Director: Erisa, Erisa IARD, HSBC Asset Management Holding, HSBC Investments (France), Sinopia Asset Management. Member of the Supervisory Board: HSBC Private Bank France. Directorships outside of the HSBC Group: Director: DCN, Association Française des Banques.

1 *Director standing for re-election at the Annual General Meeting to be held on 11 May 2010.*

Director's name Principal position	First elected	Term ends	**2009**	2008	2007	2006	2005
Evelyne Cesari Commercial manager, HSBC REIM	2000	2012	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.
Michel Gauduffe Deputy Head of HSBC Limoges branch, HSBC France	2008	2012	Directorships in the HSBC Group: Director elected by employees: HSBC France. Chairman of the Board: Institution de Prévoyance Vernet. Directorship outside of the HSBC Group: Director: AGIRA.	Directorships in the HSBC Group: Director elected by employees: HSBC France. Chairman of the Board: Institution de Prévoyance Vernet. Member of the Supervisory Board: HSBC France Sécurité Régularité Equilibre Dynamique. Directorship outside of the HSBC Group: Director: AGIRA.	–	–	–
Stephen Green Group Chairman, HSBC Holdings plc	2000	2011[1]	Group Chairman, HSBC Holdings plc. Directorships outside of the HSBC Group: Chairman: British Bankers' Association, Multinational Chairman's Group. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc., British Museum, Confucius Institute for Business, London, China Festival 2008, The Hong Kong Association, BASF SE. Member: London Business School, The Prime Minister's Business Council for Britain. Honorary Advisor: Peking University	Group Chairman, HSBC Holdings plc. Directorships outside of the HSBC Group: Chairman: British Bankers' Association, Multinational Chairman's Group. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc., British Museum, Confucius Institute for Business, London, China Festival 2008, China Now Trading Ltd, The Hong Kong Association. Member: London Business School, The Prime Minister's Business Council for Britain.	Group Chairman, HSBC Holdings plc. Directorships outside of the HSBC Group: Chairman: British Bankers' Association. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc., British Museum, Confucius Institute for Business, London, China Festival 2008, China Now Trading Ltd. Member: London Business School, The Hong Kong Association, The Prime Minister's Business Council for Britain.	Group Chairman, HSBC Holdings plc. Directorships outside of the HSBC Group: Chairman: British Bankers' Association. Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc., British Museum, China Festival 2008, The Hong Kong Association, Confucius Institute for Business, London. Member: London Business School.	Executive Director and Group Chief Executive: HSBC Holdings plc. Directorships outside of the HSBC Group: Director: Friends of the Archbishop of Canterbury's Anglican Communion Fund Inc., The Institute of International Finance, Inc. Member: London Business School, British Museum.

1 *Stephen Green resigned from the Board of Directors on 16 February 2010.*

Composition of the Board of Directors (continued)

Director's name Principal position	First elected	Term ends	**2009**	2008	2007	2006	2005
Philippe Houzé Chairman of the Management Board, Groupe Galeries Lafayette	1999	2012	Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino Guichard Perrachon. Vice-Chairman: Union du Grand Commerce de Centre Ville (UCV), Member of the Board of Directors: National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino Guichard-Perrachon. Member of the Executive Board: MEDEF. Member: Union du Grand Commerce de Centre Ville (UCV), Association Internationale des Grands Magasins, Board of Directors National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Chairman of the Management Board: Groupe Galeries Lafayette. Director: Casino Guichard-Perrachon, Société d'Exploitation du Palais des Congrès de Paris. Member of the Executive Board: MEDEF. Member: Union du Grand Commerce de Centre Ville (UCV), Association Internationale des Grands Magasins, Board of Directors National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Chairman of the Management Board: Société Anonyme des Galeries Lafayette. Chairman and CEO: Monoprix SA. Director: Casino Guichard-Perrachon, Société d'Exploitation du Palais des Congrès de Paris. Member of the Executive Board: MEDEF. Member: Union du Grand Commerce de Centre Ville (UCV), Board of Directors National Retail Federation (NRF-USA). Elected member: Chambre de Commerce et d'Industrie de Paris.	Chairman of the Management Board: Galeries Lafayette. Chairman and CEO: Monoprix SA. Director: Casino Guichard-Perrachon, Société d'Exploitation du Palais des Congrès. Member of the Executive Board: MEDEF.
Thierry Jacquaint Supervisor, HSBC Asnières-sur-Seine branch, HSBC France	2008	2012	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	–	–	–
Igor Landau Company Director	2002	2012	Chairman of the Supervisory Board: Adidas AG. Director: Sanofi-Aventis. Member of the Supervisory Board: Allianz AG.	Director: Sanofi-Aventis. Member of the Supervisory Board: Adidas-Salomon, Allianz AG.	Director: Sanofi-Aventis. Member of the Supervisory Board: Adidas-Salomon, Allianz AG.	Director: Sanofi-Aventis. Member of the Supervisory Board: Dresdner Bank AG, Adidas-Salomon, Allianz AG, IDI (Institut de Développement Industriel).	Director: Sanofi-Aventis, Insead, Essilor. Member of the Supervisory Board: Dresdner Bank AG, Adidas-Salomon, Allianz, IDI (Institut de Développement Industriel).
Thierry Moulonguet Executive Vice-President, Chief Financial Officer, Renault Group	2009	2013	Director: RCI Banque, Renault Retail Group.	–	–	–	–
Philippe Pontet Chairman Investment Banking, HSBC France	2005	2011	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Director: HSBC France, Nobel.	Directorships in the HSBC Group: Vice-Chairman Corporate Finance Europe: HSBC France. Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance.	Directorships in the HSBC Group: Vice-Chairman Corporate Finance Europe: HSBC France. Directorships outside of the HSBC Group: Chairman: SOGEPA, SOGEADE Gérance.

Director's name Principal position	First elected	Term ends	**2009**	2008	2007	2006	2005
Philippe Purdy Customer service, HSBC Mandelieu branch, HSBC France	2004	2012	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.	Director elected by employees: HSBC France.
Marcel Roulet Company Director	1996	2013	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: France Télécom. Censor: Thomson.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: France Télécom, Thales (permanent representative of TSA). Censor: Cap Gemini, Thomson.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of TSA), France Télécom. Censor: Cap Gemini.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of TSA), France Télécom. Censor: Cap Gemini.	Chairman of the Supervisory Board: Gimar Finances SCA. Member of the Supervisory Board: Eurazeo. Director: Thomson, Thales (permanent representative of Thomson SA), France Télécom. Censor: Pages Jaunes Groupe, Cap Gemini.
Peter Shawyer Company Director	2005	2013	Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International, Ingenious Media Holdings.	Independent Director and member of the Audit Committee: HSBC Bank plc. Chairman: British International, Ingenious Media Holdings.	Independent Director and member of the Audit Committee: HSBC Bank plc. Independent Director and Chairman of the Audit Committee: Silverjet plc. Director: Ingenious Media plc. Chairman: British International.	Independent Director and member of the Audit Committee: HSBC Bank plc. Director: Ingenious Music VCT 2 plc.	Director: HSBC Bank plc, Ingenious Music VCT 2 plc.
Brigitte Taittinger Chairman and CEO, Annick Goutal	2008	2012	Chairman and CEO: Annick Goutal Director: Ensemble Orchestral de Paris, Opéra Comique. Member of the Board: Ensemble Intercontemporain.	Chairman and CEO: Annick Goutal. Director: Ensemble Orchestral de Paris, Opéra Comique. Member of the Board: Ensemble Intercontemporain.	–	–	–
Jacques Veyrat Chairman and CEO, Louis Dreyfus SAS	2009	2013	Chairman and CEO: Louis Dreyfus SAS. Director: Direct Energie, Imerys. Member of the Supervisory Board: Eurazeo. Chairman of the Supervisory Board: Kurosawa BV.	–	–	–	–

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

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

I am pleased to present my report in this respect for the year ended 31 December 2009. Management is responsible for defining and implementing adequate and effective internal control and risk management procedures with oversight by the Board of Directors. In this report, the Chairman is required to report on how the Board of Directors prepares and organises its work and on the internal control and risk management procedures implemented by the company.

This report has been drawn up in close collaboration with the main divisions concerned and in association with the external auditors.

This report was submitted to the Audit Committee on 12 February 2010 and approved by the Board of Directors on 16 February 2010.

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

CHAIRMAN'S REPORT ON CORPORATE GOVERNANCE

Corporate governance Code

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

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

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

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

Board of Directors

Composition of the Board

At 31 December 2009, the Board of Directors had 18 members, including:

- the Chairman of the Board of Directors; the Chief Executive Officer; two Deputy Chief Executive Officers;
- the Chairman Investment Banking; the Senior Corporate Vice-President Head of Global Banking and Markets;
- one Director representing a company which owns 99.9 per cent of HSBC France;
- seven Directors having no special relationship with the company and who may be deemed independent with respect to all criteria defined in the AFEP/MEDEF report, particularly regarding banking relationships; however, one of their numbers has been serving as a Director for more than twelve years. Nonetheless, the Nomination and Remuneration Committee found that this criterion alone did not call into question his independence of judgement *vis-à-vis* the Company, even though it constitutes an exception to the criteria defined in the AFEP/MEDEF report;
- four Directors elected or re-elected by the employees in 2008 for a term of four years, in accordance with the provisions of the French order of 21 October 1986.

Four Directors are non-French nationals. The average age of the Directors in office is 55.7.

There were several changes to the Board's composition in 2009:

- on 27 May 2009, the AGM renewed the terms of office of Peter Boyles, Marcel Roulet and Peter Shawyer for a period of four years;
- on 27 May 2009, the AGM appointed Thierry Moulonguet, to replace Paul Dubrule who was retiring by rotation, and Jacques Veyrat as Directors of HSBC France for a period of four years.

In accordance with the recommendations of the AFEP-MEDEF report, the Nomination and Remuneration Committee has examined the position of Directors whose terms of office expired at the AGM on 27 May 2009, and proposed that the Board vote to re-appoint them, taking into account their skills and their active contribution to the work done by the Board. On 18 February 2009, it also proposed to the Board the candidatures of Thierry Moulonguet and Jacques Veyrat in order to increase the numbers of independent Directors in the Board.

Further to the AGM held on 27 May 2009 which renewed the directorships of Peter Boyles, the Board of Directors renewed the terms of office of Peter Boyles as CEO and of Christophe de Backer and Gilles Denoyel as Deputy CEOs.

Finally, during its meeting on 20 November 2008, the Board recorded the resignation of Charles-Henri Filippi as Chairman of the Board and Director with effect on 1 January 2009. On the recommendation of the Nomination and Remuneration Committee, it decided to co-opt Stuart Gulliver as a Director from 1 January 2009 for the remainder of the term of office of his predecessor, i.e. until 2012, and to appoint him as Chairman of the Board until the expiry of his mandate as a Director. The Board also confirmed the decision made in July 2007 and May 2008 to separate the functions of Chairman of the Board of Directors and Chief Executive Officer and renewed this choice in its meeting on 27 May 2009.

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

The Board's work in 2009

Before each Board meeting, Directors receive an agenda together with the draft minutes of the previous Board meeting. In the week prior to the meeting, they also receive background information on agenda items and, a few days ahead of the meeting, a summary of key financial indicators. In the case of highly confidential issues, which cannot be disclosed in advance, the information is provided during the meeting itself. Furthermore, Directors are regularly advised of significant events affecting the company and receive the relevant documents.

The Board of Directors met four times during 2009, with an average attendance rate of 83 per cent compared with 78 per cent in 2008:

- 18 February 2009 (attendance rate: 76.5%);
- 27 May 2009 (attendance rate: 88.9%);
- 29 July 2009 (attendance rate: 83.3%);
- 18 November 2009 (attendance rate: 100%).

In 2009, the Board of Directors reviewed the quarterly, half-yearly and annual financial statements and approved the half-yearly and annual accounts. During each meeting, the Board reviewed operations and results for each business line. At the meeting held on 18 February 2009, the Board approved the budget for 2009.

The Board of Directors conducted a review of progress made in the implementation of the Retail Banking Development Plan and tracked the major measures undertaken to reorganise the Personal Financial Services and Commercial Banking networks adopted following the mergers initiated in 2008 and completed in May 2009, as well as the disposal of the regional banking subsidiaries in July 2008. The new management of Personal Financial Services presented its strategy and the action plan to be implemented in this respect to the Board at its meeting on 27 May 2009. The Board was also informed of the launch of new products and services rolled out by the network, such as Business Direct, an Internet Banking service dedicated to small businesses, World Selection and Premier International Direct.

It also examined the group's position in its other business lines against a backdrop of market crisis and the development of synergies among the HSBC France business lines and with other HSBC Group entities.

With respect to subsidiaries and affiliates, the Board of Directors approved the reorganisation of its equity derivatives business, with the sale of the HSBC Financial Products (France) business franchise to HSBC Bank plc, in view of ensuring growth in these activities with the backing of an entity with a broader financial base (meeting on 27 May 2009). At its meetings on 29 July and 18 November 2009, it reviewed the various stages of this project prior to migration. It also approved the transfer of the Algerian branch to HSBC Bank Middle East as part of the plan to achieve greater consistency among business activities within the

HSBC Group (meeting on 18 February 2009). At its meeting on 18 November 2009, the Board approved the sale of the fund depositary and custodial activities of HSBC France and of its subsidiary HSBC Securities Services (France), specialized in fund administration, to the CACEIS Group, and the sale of two buildings located at 103 avenue des Champs-Elysées and 15 rue Vernet. It was regularly informed of the progress of the various projects initiated by the HSBC France group on a regular basis.

During each meeting, the Board debated the consequences of the crisis, in particular on the cost of risk and on refinancing and liquidity conditions, and on the bank's business activities. It examined the group's situation with regard to risks: credit risk, following the rise in risk-related costs resulting from the crisis, market risk, with monitoring of reduced limits against a backdrop of severe volatility, as well as litigation, compliance and operational risks. The Board was informed of the main changes in the various risk control procedures. It was also regularly informed about progress made in work concerning compliance with Basel II regulations and preparation for the transition to the Basel II IRB Advanced Approach.

At its meeting on 27 May 2009, the Board reviewed the Annual Reports (Articles 42 and 43 of regulation 97-02) and the International Capital Adequacy Assessment Process (ICAAP) Report sent to the *Commission bancaire*, and the follow-up letters and replies following the audits carried out by the *Commission bancaire* and the investigations conducted by the AMF. In accordance with the new provisions of regulation 97-02, the Board approved the thresholds for reporting operating incidents and frauds to the Board of Directors and the *Commission bancaire* (meeting on 27 May 2009) and delegations of authority for permanent controls within the HSBC France group.

In the area of human resources, at its meeting on 18 November 2009, the Board was informed of the results of the "Global People Survey", which measures the commitment of HSBC Group employees. This survey was conducted for the third year during the summer of 2009. The Human Resources Strategy Plan was presented to the Board at its meeting on 27 May 2009.

The work of the Board Committees was set out in periodic, detailed reports from their respective Chairmen and debated during Board meetings. Within this framework, the Board was kept informed about the various points of action identified by the Audit Committee, particularly in IT risk monitoring and the bank's position in dynamic money market funds. Apart from these major issues, the Board also discussed various other issues which are legally its responsibility.

Board meeting held on 14 January 2010

As part of the geographical reorganisation of the HSBC Group's management as announced in September 2009, Stuart Gulliver, HSBC Group Chairman for Europe, the Middle East and Global Businesses, has appointed Peter Boyles as HSBC Group Chief Executive Officer for Continental Europe as of 1 February 2010. Consequently, Peter Boyles has stood down from his position as Chief Executive Officer of HSBC France.

At its meeting on 14 January 2010, the Board of Directors appointed Peter Boyles as Deputy Chairman and Christophe de Backer as Chief Executive Officer of HSBC France. It also appointed Jean Beunardeau, who remains Head of Global Banking and Markets in France, as Deputy CEO, Deputy to the CEO. Gilles Denoyel was confirmed as Deputy CEO and Chief Risk Officer.

Stuart Gulliver remains as Chairman of the Board of HSBC France.

Special committees

Nomination and Remuneration Committee

Composition of the Nomination and Remuneration Committee

Chairman:

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

Member:

– Stuart Gulliver	Appointed November 2009

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

During 2010, the Committee is expected to appoint in a new Independent Director as a member to replace Paul Dubrule.

The Committee's main tasks are as follows:

- making proposals to the Board of Directors regarding the appointment of Directors and members and Chairmen of the Board's specialist committees according to the desirable balance in the composition of the Board but also to the specific skills and reputation of applicants;
- proposing a Chairman and a CEO to the Board, and proposing Deputy CEOs to the Board on the CEO's recommendation, for succession planning purposes or in the event of a vacancy;
- examining all remuneration of Executive Directors;
- making proposals and recommendations to the Board concerning remuneration, pension and protection plans, additional pension contributions, benefits in kind and various cash entitlements of Executive Directors;
- making recommendations on Directors' remuneration and the distribution of Directors' fees;
- issuing opinions and recommendations on the executive remuneration policy and particularly on the remuneration structure;
- making preparations for the Board's examination of corporate governance issues;
- lastly, in accordance with the new procedures stipulated by regulation 97-02 and instituted on 3 November 2009, carrying out an annual review of the remuneration policy and, more particularly, the share of variable compensation paid to market professionals and Executive Directors, to ensure that they are consistent with the HSBC Group's policy and that they comply with French standards.

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

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

The Nomination and Remuneration Committee's work in 2009

The Committee met twice in 2009, with an attendance rate of 83.5 per cent. Its main work was as follows:

- it made proposals to the Board on renewing the terms of office of four Directors in the AGM. Proposals were made to renew the terms of office of Peter Boyles (Director since 2007), Marcel Roulet (Director since 1996) and Peter Shawyer (Director since 2005), as Paul Dubrule did not wish to stand for re-election;
- it made proposals to the Board on the change in the Board's composition and on appointing two new independent Directors: Thierry Moulonguet and Jacques Veyrat (meeting on 18 February 2009);
- it made proposals to the Board on the change in the composition of the Nomination and Remuneration Committee (meeting on 18 February 2009);
- it made proposals to allow the Board to approve, in agreement with HSBC Holdings plc, the terms of the 2009 remuneration of Peter Boyles, Christophe de Backer and Gilles Denoyel, setting out the fixed and variable elements of their remuneration and the number of shares without performance conditions, to be awarded to them (see section "Directors' remuneration");
- it reviewed various appointments from among the HSBC France management team and, more specifically, it reviewed the proposed replacement for the Head of Group Audit and Internal Audit;
- it reviewed the *Commission bancaire*'s audit report on the compensation policy applicable to market professionals;
- it reviewed the new governance rules as they apply to HSBC France's remuneration policy, which is part of the general remuneration policy defined by the HSBC Group;
- it reviewed the rules pertaining to remuneration of market professionals;
- it reviewed the new variable compensation system applicable to professionals in the networks.

All of the Committee's work was submitted to the Board for approval. Moreover, the new duties and responsibilities of the Nomination and Remuneration Committee were incorporated into the Board's Internal Rules and will be submitted to the Board for approval at its February 2010 meeting.

The Chairman of the Committee reported to the Board on its work at the Board meetings on 18 February and 18 November 2009.

Audit Committee

Composition of the Audit Committee

Chairman:

– Marcel Roulet (independent)	Appointed 2003 and 2005 as Chairman

Members:

– Peter Shawyer (independent)	Appointed May 2005
– Thierry Moulonguet (independent)	Appointed July 2009

In accordance with French order No. 2008-1278 dated 8 December 2008, transposing EC Directive 2006/43/EC of 17 May 2006 into French law and pertaining to the external Auditors, Matthew King, who is Head of HSBC Group Internal Audit but is not a Director of HSBC France, is no longer a member of the Audit Committee. Moreover, as a result of changes in his duties and responsibilities within the HSBC Group effective as of 1 February 2010, Mr King withdrew as a member of HSBC France's Audit Committee.

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

The Audit Committee's main duties are defined in the Board's internal rules. These duties were subjected to an in-depth review in 2005 to ensure compliance with the Sarbanes-Oxley Act. They are:

– to examine the integrity of the quarterly, half-yearly and annual financial statements submitted to the Board of Directors in order to ensure that the data and information provided give a true and fair view of the company's operations and position;

– to discuss with the external Auditors the financial statements, the scope of audits, restatements made, compliance with accounting principles, market rules and legal requirements, and the impact of any changes in accounting principles and practices;

– to review the company's financial and accounting policies and practices, and to review financial internal control systems;

– to make recommendations to the Board of Directors regarding the appointment of external Auditors, their fees and any other issues concerning their duties;

– to assess the independence and objectivity of external Auditors, including supervision of the turnover of the signing partners and the effectiveness of the audit process;

– to apply the code of conduct concerning the provision of non-audit services by the external Auditors;

– to review the external Auditors' management letter together with management's response to it, and to monitor the implementation of recommendations made in the letter;

– to carry out a general review of the internal control system and to examine the internal control programme and resources;

– to examine management reports on the internal control system;

– to examine the system used by the company and its subsidiaries to ensure compliance with directives issued by the supervisory authorities and with regulations applicable to them;

– to examine regular reports on the management of material risks and litigation related to the company's activity, and to ensure the effectiveness of the system for controlling these risks.

The Committee meets the external Auditors and the internal audit officers alone at least once per year to ensure that no particular problems remain unresolved.

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

As required under the HSBC Group rules, once the Audit Committee has verified the accounting procedures used to prepare the financial statements, the Chairman of the Committee sends a letter of confirmation to the Chairman of the Audit Committee of HSBC Bank plc, HSBC France's direct shareholder.

The Audit Committee's work in 2009

The Audit Committee met four times in 2009, and, as in 2008, the attendance rate was 100 per cent:

– 16 February 2009;

– 15 May 2009;

– 23 July 2009;

– 13 November 2009.

Each meeting was also attended by the external Auditors, the Deputy CEO in charge of risk, the Chief Financial Officer, the Chief Accouting Officer and the Head of Audit. The HSBC Group's Head of Internal Audit, who is associated with the members of the Audit Committee, also attended all Audit Committee meetings. The Chief Executive Officer and the two Deputy Chief Executive Officers of HSBC France attended Committee meetings to answer any questions. HSBC France executives also attend Committee meetings covering any subjects falling under their responsibility. Audit Committee members met with the external Auditors in private sessions prior to the Board meetings held subsequent to the meetings held to review the half-yearly and year-end accounts (meetings of 16 February and 23 July 2009).

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

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

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

– market risk, including trends in market risk compared with limits, the fixing of limits and control instruments and procedures in place. It specifically reviewed operating controls, which have been reinforced in order to protect from the risk of fraud in capital market activities;

– legal and litigation risks;

– other risks, and more specifically operational risks and IT risks.

It was informed of the new operational risk and permanent control governance system instituted in response to the new provisions of regulation 97-02, with the strengthening of ties between the central Operational Risk and Internal Control Department team and the business lines so as to increase centralisation of monitoring procedures (meeting on 23 July 2009). It reviewed all operational risk reporting thresholds defined for each HSBC France group entity prior to submitting them to the Board for approval (meeting on 15 May 2009) and was informed of any excess over these limits. Incidents above this threshold must now be reported to the Board of Directors and to the *Commission bancaire*. The Committee also familiarised itself with the scorecard summarising HSBC France's risk appetite.

In 2009, the Audit Committee continued closely to watch the progress of the Basel II project and was regularly informed of exchanges with the *Commission bancaire* on the implementation of their recommendations and the authorisations granted by the *Commission bancaire* and Financial Services Authority (FSA) to HSBC France to transition to the Advanced IRBA method to calculate LGD (Loss Given Default) for Corporate clients (meeting on 13 November 2009). It will continue its work to secure the second phase of this approval.

Furthermore, at the Committee's request, during each meeting, it continued to review the positions acquired by HSBC France in assets and units of dynamic money market funds in order to provide liquidity to customers that held these funds.

At its meeting on 15 May 2009, it reviewed the Annual Report to the *Commission bancaire* on risk monitoring and measurement, in accordance with regulation 97-02.

The second aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent-company and consolidated accounts and analysed the impact of changes in the accounting scope of consolidation on the results. The 2008 consolidated financial statements were presented according to IFRS, with a distinction drawn between the legal and French managerial scope of consolidation. Parent company financial statements for 2008 were presented according to French GAAP. The Committee discussed the choices made by the company in drawing up its financial statements with the assistance of the external Auditors. The external Auditors commented on their management letter and aspects subject to particular attention at the time of preparing the 2008 financial statements (meeting on 16 February 2009). They presented their limited review on the financial statements at 30 June and 30 September 2009 (meetings on 23 July and 13 November 2009). The Committee discussed the audit programme and the external Auditors' budget for 2009.

The last aspect of the Committee's work was internal audit, internal control, compliance and relations with the regulatory authorities. The Audit Committee looked at Sarbanes-Oxley certificates drawn up quarterly and examined "weaknesses" identified in Sarbanes-Oxley reporting. It was also informed of the introduction of new SOX control procedures following the 2009 risk assessment and corrections of weaknesses identified previously. It reviewed the points raised in quarterly suspense account reconciliation certificates prepared at the request of the HSBC Group. The Committee also verified the adequacy of provisions for identified risks.

It also regularly examined internal audit work and reviewed the main audit assignments, particularly those deemed insufficient. It was informed about audit recommendations, progress in implementing them and the monitoring of the recommendations not yet implemented. It approved the 2009 annual audit plan. The Committee was also informed of the retirement of Alain Cadiou, Head of Group Audit, HSBC France, and approved the appointment of François Mongin to replace him (meeting on 23 July 2009).

The Committee reviewed the Chairman's report on internal control and the Review of Internal Control Framework (RICF), which meets UK and US requirements on corporate governance (meetings on 16 February and 18 November 2009). In its meeting on 15 May 2009, it conducted a review of the Annual Reports to the *Commission bancaire* on internal control procedures (permanent control and periodic control), as required under regulation 97-02.

As part of compliance controls, the Committee reviewed quarterly compliance certificates, which state the main procedural breaches. It approved the AMF Annual Report on the organisation and operation of the investment services control system, along with the Annual Report on cheque controls (CRBF 2002-01). It examined the compliance action plan for 2009, based on reinforcing measures to combat money laundering, the implementation of *Commission bancaire* recommendations following its audit and the application of new HSBC Group rules and of regulation 97-02. It was informed of the findings of various audits carried out by the AMF and the *Commission bancaire* and of the action plans initiated to implement their recommendations.

The Chairman of the Audit Committee reported on the key points of the Committee's work at the Board meetings held on 18 February, 27 May, 29 July and 18 November 2009.

Remuneration

Remuneration and advantages of Executive Directors

Remuneration policy

The remuneration of Executive Directors is adopted each year by the Board of Directors upon the recommendation by the Nomination and Remuneration Committee, after approval by the Remuneration

Committee of HSBC Holdings plc. It includes a fixed component and a variable component. The fixed component is determined in accordance with market practices with the help of specialist consulting firms.

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

Award of shares

In 2009, Executive Directors benefited from the allocation of bonus shares in HSBC Holdings plc in accordance with the HSBC Group's general policy of systematically awarding shares instead of stock options since 2006. The Group awards various categories of bonus shares:

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

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

No HSBC France Executive Directors, except Stuart Gulliver who does not receive any remuneration from HSBC France, were involved in the work of the Group Management Board in respect of 2009 and therefore they did not receive any Performance Shares but did receive Restricted Shares, for which the only criterion is to be with the company after a period of two years.

Supplementary pension scheme

The Executive Directors of HSBC France have a defined benefits supplementary pension scheme. This plan guarantees members a pre-determined absolute supplementary pension income based on their length of service. In the event that the beneficiary dies, 60 per cent of this pension is payable to the surviving spouse. It is increased every year in line with the average rate applied to French State pensions. The Board of Directors decided to revise the basis of these pensions in its 27 February 2007 meeting, and its decision was applied retrospectively from 1 January 2007.

At 31 December 2009, Gilles Denoyel had accrued pension rights at HSBC France representing 23 per cent of his fixed 2009 salary and 12 per cent of his total 2009 cash remuneration. At 31 December 2009, Christophe de Backer had accrued pension rights representing 5 per cent of his fixed 2009 salary and 2 per cent of his total 2009 cash remuneration.

The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2009, for an amount of EUR 1.8 million.

Remuneration

Stuart Gulliver, Chairman of the Board of HSBC France, does not receive any compensation or fees from HSBC France and is not a beneficiary of the HSBC France supplementary pension scheme. He has an employment contract with another company of the HSBC Group and has access to a pension fund of the HSBC Group. Consequently, the information regarding the remunerations received by Stuart Gulliver, whatever their kind (fixed remuneration, differed variable remuneration in shares and benefits in kind) are available in the *Annual Report and Accounts*[1] of HSBC Holdings plc (pages 334 to 348) or in the *Annual Review*[1] published by HSBC Holdings plc (pages 34 to 41).

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

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

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

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

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

	2008		**2009**	
(in euros)	Amounts paid in 2008	Amounts due in respect of 2008	Amounts paid in 2009	Amounts due in respect of 2009
Peter Boyles *Chief Executive Officer*				
Compensation (detailed in table 2)	1,248,940	828,865	**825,468**	**908,720**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[1]	637,811	790,006	**790,006**	**659,195**
Total	1,886,751	1,618,871	**1,615,474**	**1,567,915**
Christophe de Backer *Deputy CEO*				
Compensation (detailed in table 2)	1,106,605	869,680	**869,680**	**886,605**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[1]	1,040,000	1,016,925	**1,016,925**	**720,000**
Total	2,146,605	1,886,605	**1,886,605**	**1,606,605**
Gilles Denoyel *Deputy CEO*				
Compensation (detailed in table 2)	688,745	657,820	**657,820**	**666,745**
Value of the options awarded (detailed in table 4)	–	–	–	–
Value of the shares awarded (detailed in table 6)[1]	470,000	328,975	**328,975**	**300,000**
Total	1,158,745	986,795	**986,795**	**966,745**

1 *As the HSBC France Executive Directors are not awarded Performance Shares (see above page 26), this line shows the shares without performance conditions.*

1 *Available on www.hsbc.com/Investor Relations/Financial information.*
* *Table numbers refer to table models provided by the* Autorité des Marchés Financiers *in its 22 December 2008 recommendation concerning information to be provided in registration documents concerning compensation of corporate officers.*

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

(in euros)	2008 Amounts paid in 2008	2008 Amounts due in respect of 2008	**2009** Amounts paid in 2009	**2009** Amounts due in respect of 2009
Peter Boyles				
Chief Executive Officer				
Fixed remuneration	463,942	463,948	**461,486**	**461,486**
Variable remuneration	776,293	356,212	**356,212**	**439,464**
Exceptional remuneration[1]	–	–	–	–
Director's fees	–[2]	–[2]	–[2]	–[2]
Benefits in kind	8,705[3,4]	8,705[3,4]	**7,770**[3,5]	**7,770**[3,5]
Total	1,248,940	828,865	**825,468**	**908,720**
Christophe de Backer				
Deputy CEO				
Fixed remuneration	400,000	400,000	**400,000**	**400,000**
Variable remuneration	700,000	463,075	**463,075**	**480,000**
Exceptional remuneration[6]	–	–	–	–
Director's fees	–[2]	–[2]	–[2]	–[2]
Benefits in kind	6,605[3]	6,605[3]	**6,605**[3]	**6,605**[3]
Total	1,106,605	869,680	**869,680**	**886,605**
Gilles Denoyel				
Deputy CEO				
Fixed remuneration	365,000	365,000	**365,000**	**365,000**
Variable remuneration	300,000	291,075	**291,075**	**300,000**
Exceptional remuneration[7]	–	–	–	–
Director's fees	22,000	–[2]	–[2]	–[2]
Benefits in kind	1,745[3]	1,745[3]	**1,745**[3]	**1,745**[3]
Total	688,745	657,820	**657,820**	**666,745**

1 *In addition he received EUR 96,900 for synthetic shares granted in 2005.*
2 *Renounced the payment of his fees by HSBC France (see below page 30).*
3 *Company car.*
4 *In addition HSBC funded EUR 236,917 for other benefits due to his status as International Manager.*
5 *In addition HSBC funded EUR 428,772 for other benefits due to his status as International Manager.*
6 *In addition he received EUR 278,591 for synthetic shares granted in 2005.*
7 *In addition he received EUR 314,935 for synthetic shares granted in 2005.*

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

	Number of the plan and date of award	Type of options	Value of the shares under the method used for the consolidated accounts	Number of options awarded during the year	Exercise price	Period of exercise
None (cf. page 26).						

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

CCF options exercised in 2009

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

HSBC Holdings plc options exercised in 2009

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

Shares awarded to each Executive Director in 2009 in respect of 2008 (Table 6)

HSBC Holdings plc shares *

	Date of award	Number of shares awarded [1]	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Peter Boyles	02.03.2009	176,545	EUR790,006	02.03.2011	02.03.2013
Christophe de Backer	02.03.2009	227,257	EUR1,016,925	02.03.2011	02.03.2013
Gilles Denoyel	02.03.2009	73,517	EUR328,975	02.03.2011	02.03.2013

** The HSBC France Executive Directors were not awarded shares subject to performance conditions, as this category of shares is awarded by the HSBC Group to directors involved in the work of the Group Management Board (cf. page 26).*
1 The shares awarded by other Group companies are included.

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

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

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

	Number of options awarded/ exercised	Average exercise price	Date of award	Expiry date
CCF options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest	None			
HSBC options awarded during the year, by the issuer and by any company of its group to its ten employees whose number of awarded options is the highest	None			
CCF options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	None			
HSBC options exercised during the year by the ten employees and former employees whose number of exercised shares is the highest	263,935	GBP6.12	2003 and 2004	2013 and 2014

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

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

1 *Cf. page 27.*
2 *Cf. pages 26 and 27.*
3 *Chief Executive Officer until 1 February 2010 and Deputy Chairman since then.*
4 *Employment contract with another company of the HSBC Group.*
5 *Deputy CEO until 1 February 2010 and CEO since then.*
6 *Standing for re-election at the Annual General Meeting to be held on 11 May 2010.*

Directors' fees

At the Annual General Meeting of 21 December 2007, the maximum amount of Directors' fees payable each year was fixed at EUR 600,000 compared with EUR 480,000 since 2005 in order to implement a decision of the Board adopted on 25 July 2007 to grant the Chairman of the Board an annual flat fee of EUR 122,000.

Furthermore, in its meeting of 17 May 2005, the Board of Directors decided to increase the individual fees as follows:

– each Director receives an annual flat fee of EUR 22,000 at the conclusion of the Annual General Meeting;

– those Directors who sit as Chairman or member on the Board Committees also receive an annual flat fee as follows:

  • EUR 10,000 for the members of the Nomination and Remuneration Committee,

  • EUR 15,000 for the members of the Audit Committee,

  • EUR 25,000 for the Chairman of the Audit Committee.

Within the HSBC Group, it is customary for Directors representing HSBC and Executive Directors to renounce Directors' fees from HSBC Group companies. This recent recommendation has been implemented by the Executive Directors of HSBC France and its subsidiaries.

In 2009 (in respect of 2008), Stephen Green, Peter Boyles, Christophe de Backer, Gilles Denoyel, Philippe Pontet and Jean Beunardeau renounced the payment of their fees. It has to be noted that, according to this rule, Stuart Gulliver will not receive any fees from HSBC France for his office of Chairman of the Board of HSBC France held since 1 January 2009.

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

Net total Directors' fees to be paid in May 2010 in respect of 2009 amount to EUR 0.29 million, compared to EUR 0.39 million paid in 2009 in respect of 2008.

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

	Directors' fees paid in 2008 in respect of 2007	Directors' fees paid in 2009 in respect of 2008	Other compensation paid in 2008 [1]	Other compensation paid in 2009 [1]
Executive Directors of HSBC Group companies				
Jean Beunardeau [2]	–	–	EUR1,140,000	EUR780,870
Charles-Henri Filippi [3]	EUR40,667	EUR122,000	EUR350,000	–
Michael Geoghegan [4, 5]	–	–	GBP1,667,745	GBP1,675,000
Stephen K Green [4]	–	–	GBP1,265,368	GBP1,262,106
Stuart T Gulliver [6]	–	–	–	GBP825,526
Philippe Pontet	EUR22,000	–	EUR850,000	EUR718,000
Directors elected by the employees				
Evelyne Césari	EUR22,000	EUR22,000		
Maurice Ettori [7]	EUR22,000	–		
Michel Gauduffe [7]	–	EUR22,000		
Thierry Jacquaint [8]	–	EUR5,500		
Philippe Purdy [9]	EUR22,000	EUR22,000		
Joyce Semelin [9, 10]	EUR22,000	EUR16,500		
Independent Directors				
Martin Bouygues [11]	EUR16,500	–	–	–
Paul Dubrule	EUR32,000	EUR32,000	–	–
Philippe Houzé	EUR32,000	EUR32,000	–	–
Jean-Claude Jolain [12]	EUR8,000	–	–	–
Igor Landau	EUR22,000	EUR22,000	–	–
Thierry Moulonguet [13]	–	–	–	–
Jean-Charles Naouri [14]	EUR11,000	–	–	–
Marcel Roulet	EUR47,000	EUR47,000	–	–
Peter Shawyer	EUR84,171 [15]	EUR88,200 [15]	–	–
Brigitte Taittinger [16]	–	EUR11,000	–	–
Jacques Veyrat [13]	–	–	–	–

1 Fixed and variable remuneration and benefits in kind.
2 Appointed as a Director on 1 January 2008.
3 Chairman of the Board of Directors until 31 December 2008.
4 Emoluments shown are paid by other HSBC Group companies in respect of their executive functions within the Group.
5 Appointment ended on 16 January 2008.
6 Appointed as a Director and Chairman of the Board on 1 January 2009. Does not receive any compensation or fees from HSBC France. See page 27.
7 On 1 January 2008, Michel Gauduffe took over from Maurice Ettori who retired.
8 Elected on 26 September 2008.
9 Directors' fees paid to a trade union organisation.
10 Appointment ended on 26 September 2008.
11 Appointment ended on 1 October 2007.
12 Appointment ended on 10 May 2008.
13 Appointment on 27 May 2009.
14 Appointment ended on 17 July 2007.
15 Of which EUR 27,750 paid by HSBC France, excluding withholding tax.
16 Appointment on 31 July 2008.

Conflicts of interest

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

For information, Stephen Green and Stuart Gulliver are respectively Director and Chairman of the Board of HSBC France and Chairman and Director of HSBC Bank plc, which owns 99.99 per cent of the issuer, and of HSBC Holdings plc, which owns 100 per cent of HSBC Bank plc.

Article IV-2 of the Board of Directors' internal rules states that any Director who has a conflict of interest must report it to the Board and must abstain from voting on any corresponding motion, and that the Chairman may invite the Director not to attend the discussion.

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and were updated in 2001, 2003, 2005 and 2008. The latest adjustment was submitted to the Board in its meeting on 27 May 2009. A new update to these rules will be submitted to the Board in February 2010 to incorporate the new rules stipulated under regulation 97-02 pertaining to the duties and responsibilities of the Nomination and Remuneration Committee.

These rules specify the Board's main duties:

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

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

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

Further to the Board's decision to separate the Chairman and CEO roles, the internal rules were adapted in May 2009 to take into account the position of Stuart Gulliver as Chairman of the Board of HSBC France and CEO Global Banking and Markets and Asset Management of HSBC Holdings plc. They define the procedures for conducting Board meetings and providing information to the Board. Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties, powers and responsibilities of the Audit Committee and the Nomination and Remuneration Committee (see above). They also incorporate a code of conduct to be followed by the Directors of HSBC France, setting out their rights and duties. Lastly, they define intervention rules on HSBC Group listed securities for HSBC France directors.

Self-assessment

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

General Meeting

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

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

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

Restrictions on the CEO's powers

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

In this respect, the Board of Directors has delegated its powers to issue bonds to Peter Boyles (Chief Executive Officer), Christophe de Backer and Gilles Denoyel (Deputy Chief Executive Officers) and the Heads of the fixed-income and forex markets. At present, there are no specific restrictions on the Chief Executive Officer's powers, but in practice, decisions involving the orientation of company activities are submitted to the Board of Directors for approval. These powers were modified on 1 February 2010 to take into account the changes in the Senior Management.

The Chief Executive Officer has delegated certain powers to the Deputy Chief Executive Officers and Senior Corporate Vice-Presidents, who may in turn delegate some of these powers to agents holding general powers of attorney reporting directly to them.

These powers concern:

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

Delegated powers must be exercised within the bounds of the person's responsibilities and in accordance with Group principles and practices. A person with delegated powers may not alone commit HSBC France to sums above EUR 1,500,000.

There are specific delegated powers concerning credit and market risk, for which the CEO delegates his powers (see "Authorisation limits and approval procedures").

CHAIRMAN'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

Significant events and regulatory developments in 2009

The main event of 2009 was the completion of the merger of HSBC UBP, HSBC Picardie, HSBC Hervet and HSBC de Baecque Beau with HSBC France, as well as the transfer – in the form of a transfer of business assets – of the equity derivatives activities of HSBC Financial Products (France) to the HSBC Bank plc Paris branch.

In terms of controls, the Operational Risk and Internal Control Department (ORIC) created on 1 June 2009 took over the duties of the ORIC central team, with a reinforced role in two areas: supervising permanent control framework and providing a forward-looking and cross-functional overview of risks. The ORIC Department works in active collaboration with the business lines' ORIC teams, with which a functional link has been formed, as well as with the various specialist risk functions.

General organisation of internal control and risk management procedures

At HSBC France, permanent control is the responsibility, at the first level, of each business line or entity, notably through their operational risk and internal control function (see below). Specific type of risk (structural interest rate/forex/liquidity risks, market risk, credit risk, IT risks, accounting, business continuity plan, compliance, legal and tax, human resources) are supervised by the relevant central risk function. The entire framework is coordinated by the Deputy CEO of HSBC France in charge of risk management and permanent control. The control system headed up by the individual business units encompass not only HSBC France but all of the Group's entities in France, in order to ensure management of risks across the entire scope of consolidation.

Permanent control, periodic control and compliance officers have been appointed at HSBC France and at each of the HSBC France group's other entities
subject to regulation 97-02. As a result of these appointments, a report was delivered to the decision-making bodies concerned and the *Commission bancaire* in the form of a letter dated 20 December 2005, which has since been regularly updated.

The Risk Management Meeting is responsible for summarising monitoring of the main risks, meeting once a month under the chairmanship of the Deputy CEO in charge of risk management and permanent control. Meetings are attended by a large portion of Executive Committee members, as well as risk management officers.

An Operational Risk and Internal Control Committee has been created at HSBC France, which meets once a month, chaired by the Deputy CEO in charge of risk management and permanent control. Its main responsibilities are:

– promoting an organisation that is aware of risk management, involving all entities in a formalised and evolving process analysing, assessing and managing operational risk;

– reporting on the HSBC Group's organisation and procedures in terms of operational risk management and control, and ensuring that these are effectively reflected in local directives and procedures;

– overseeing the implementation of and compliance with directives and procedures relating to operational risk and internal control;

– managing and periodically reviewing the risk profile within HSBC France's business lines, focusing in particular on pro-active management of emerging issues and new risks.

The ORIC Committee acts locally at the level of each of HSBC France's business lines and each risk function identified.

The Deputy CEO in charge of risk management and permanent control has made the ORIC Department responsible for supervising internal control system and having a forward-looking and cross-functional overview of risks. This department oversees operational risk management and supervises the internal control work of the control teams of the various business lines and departments with which a functional link has been formed. It is responsible in particular for ensuring that risks are fully covered. This organisational structure, based on the model adopted by the HSBC Group, also meets the specific requirements of French regulations (notably regulation 97-02).

The ORIC Department therefore works in active collaboration with the ORIC teams of the Group's business lines and various specialist risk functions. It plays a role in consolidation and harmonisation, covering all entities and structures reporting to HSBC France on major issues such as reviewing risk and controls mapping, defining and monitoring plans of action, drawing up crisis scenarios, reporting incidents and organising the implementation of risk indicators. It also reviews control plans and coordinating the formalisation of key controls and the content of reports.

The team also serves as an interface with other HSBC Group entities, with HSBC Holdings plc on one hand and HSBC Bank plc on the other. Notably, it is involved in the consolidation and dispatch of required reports, as well as disseminating instructions and best practices. The Head of the ORIC Department also acts as secretary for the Risk Management Meeting (RMM), which oversees risk supervision system.

Lastly, the team is involved in project management of the IT systems used for recording operational risks and incidents.

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

Company references

HSBC Group Manuals

The GSM (HSBC Group Standards Manual) sets out the policies and standards that govern the HSBC Group's business operations. All Group units, without exception, are required to comply with the GSM, regardless of their geographical location. No dispensation is granted without the specific agreement of the HSBC Group Chairman.

All business activities and types of transaction must be fully documented in manuals or written procedures. The Functional Instruction Manuals (FIMs) contain detailed policies and procedures relating to specific functions, products or practices which are to be complied with throughout the Group. In addition, HSBC France and its subsidiaries are required to document operating procedures and practices in Business Instruction Manuals (BIMs).

The adequacy and effectiveness of these manuals have to be reviewed at least once a year. Business unit Heads are required to report annually on compliance with the manuals, to confirm that their business activity is properly covered by them, that they are comprehensive, and that existing procedures have been reviewed over the past year.

Handbook and Codes of Conduct

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

Legislative and regulatory changes, in particular the EU Markets in Financial Instruments Directive, have led to changes in business ethics rules contained in the internal rules. They came into effect in February 2009 following the consultation with the unions initiated out in 2008.

Accounting control procedures

The Finance Department maintains accounting control manuals featuring procedures and instructions which comply with French accounting standards. The aim is to ensure the effectiveness and quality of internal controls on the preparation of accounting and financial information throughout the HSBC France group. In addition to specific accounting and financial publications, circulars are sent to the staff of the accounting and financial function of HSBC France and its subsidiaries in order to standardise the level of knowledge and understanding of accounting standards in the group.

Internal circulars

Internal circulars are the key vehicle for communicating internal standards and rules derived from French regulatory requirements or HSBC Group standards that apply to several or all HSBC Group structures operating in France. They are available on the HSBC France intranet site, listed by topic, type and recipient.

Persons responsible for control activities and their role

a *Audit Committee*

The Audit Committee is one of the key bodies in the HSBC Group's internal control system. Its duties and composition are set out in the section of this report on corporate governance[1].

b *Group Audit France (GAF)*

GAF carries out HSBC France's audit function and is the group's periodic control body. It reports directly to the CEO of HSBC France and functionally to the HSBC Group's Audit Department.

1 *Cf. page 23.*

It covers all businesses operated by the Group in France, including those of subsidiaries.

GAF has a staff of about 40, and carried out 35 audits in 2009. This was the first full year of its reduced audit scope following the sale of the regional banking subsidiaries in mid-2008 and the transfer of credit control activities to permanent control officers. Joint audits with the Group's other audit entities were stepped up in 2009, in particular with the HSBC Group audit unit in London specialising in the financial sector (Group Financial Services and European Audit – AUF).

Its role is to oversee the quality of internal control systems by ensuring observance of national regulations applicable to the audited area and correct application of standards and procedures in force within the HSBC Group. Audits of internal control systems are performed regularly to assess the level of control over risk in the audited units. Recommendations are made to remedy any shortcomings and are validated by the audited unit and set out in a report sent to Senior Management. Audit work is done in accordance with the HSBC Group's audit standards, described in the Group Audit Standards Manual (GASM). This manual is updated yearly on a consolidated basis and should be re-read by the auditors each year and implemented during each audit.

The audit approach is based on an assessment of all risk components at each auditable entity. This assessment is developed within the Audit Information System (AIS) tool provided by the HSBC Group. As in 2008, GAF's audit schedule was prepared for 2009 using the results of the Risk Calculator Tool, which classifies entities according to the extent of their risks. Themed audits were also performed, either at the request of the Group or due to specific events affecting the life of the bank. AUF still provides control of all HSBC Group's Capital Markets activities as well as its Insurance, Asset Management, Accounting, Global Banking and Private Banking operations. It has a unit in Paris, as part of GAF. AUF teams covered HSBC France's activities, having carried out 14 audits in 2009, at a comparable level to 2008 with 16 audits.

Audited units are given an overall rating based on the inherent risk and the quality of internal control to which they are submitted. Audit reports are sent to the next level of management, which is responsible for implementing recommendations made by GAF, by the external Auditors or by the supervisory authorities. Audit recommendations are monitored rigorously: quarterly progress reports must be sent by each audited entity to GAF until recommendations are fully implemented.

GAF reviews these progress reports and validation reports concerning the implementation of major risk recommendations. The process is supported by a tool developed in-house that automatically sends follow-up requests to audited entities if they are late in sending their reports, and that allows accurate monitoring of implementation times. Audited entities can find out about progress made in implementing audit recommendations directly by using a feature of the AIS tool.

Information on major or repeated risk recommendations, and on recommendations with an implementation lead time of more than six months, is reported to the main management committees (Executive Committee; Risk Management Meeting) and to HSBC France Audit Committee. At the request of the HSBC Group's Audit Department, GAF was particularly closely involved in the various business lines in 2009, helping them to implement high risk recommendations with a view to reducing the number thereof.

GAF annually monitors recommendations issued by supervisory authorities. Group Finance is responsible for the quarterly monitoring of external Auditors' recommendations.

c *Risk Management Meeting (RMM)*

The Risk Management Meeting (RMM), chaired by the Deputy CEO in charge of risk management and permanent control, is the general committee overseeing risk management and permanent control. It meets every month to analyse HSBC France's main risks, discussing a previously agreed agenda. The RMM reports functionally to the European Risk Management Committee, the equivalent committee set up by the Group on a pan-European level, to which it sends its minutes and the meetings of which are attended by HSBC France's Deputy CEO in charge of risk management and permanent control. The RMM's work is also used by HSBC France's Audit Committees.

d *Compliance Committee*

The Compliance Committee, set up in April 2006, meets quarterly. Chaired by the HSBC France CEO, it includes the Deputy CEO in charge of risks and the members of the Executive Committee responsible for business lines. This committee has two roles. It makes decisions relating to the coordination of the compliance control system, and reports to Senior Management about how the system is working, any incidents and the corrective measures applied.

e The Operational Risk and Internal Control (ORIC) Committee

In keeping with the Group, the Operational Risk Management Group (ORMG) Committee was created at HSBC France in late 2003 to look after supervision of operational risk. In mid-2008, it became the Operational Risk and Internal Control (ORIC) Committee, with its scope enlarged to include permanent control, which had previously been looked after by a separate committee.

The committee's rules of operation are inspired by those of the HSBC Group and have been adapted to the provisions of regulation 97-02 as amended. Having been validated for the first time in July 2008, these rules are reviewed each year. The ORIC Committee meets each month under the chairmanship of the Deputy CEO in charge of risk management and permanent control.

Its purpose is to ensure that the HSBC France group's permanent control and operational risk management procedures meet the requirements of the *Commission bancaire* and the Group. Within this framework, it is responsible for the following with regard to operational risk:

– analysing the operational risks presented by business lines and risk functions (in particular major risks) by validating or developing, if necessary, permanent controls with a view to reducing risk;

– reviewing the progress made in plans of action, in particular those relating to the risks considered the most critical (top risks);

– reviewing significant incidents (operating losses and/or near misses) in terms of amount or type of incident, as reported by the business lines;

– reviewing the compliance of operational risk management procedures in relation to regulatory requirements or demands of the HSBC Group (as defined in the GSM, the FIM or Group Circular Letters);

– reviewing cross-functional matters relating to operational risk management or methodology issues (such as critical levels, downgrading of major risks after the completion of plans of action, etc.);

– defining and then conducting periodical reviews of statements of operational risk monitoring indicators.

This monthly committee meets once a quarter in plenary session and twice a quarter in more a restricted "technical" session to conduct a detailed review of risks, losses, plans of action, indicators and controls for a specific business line and/or support function, or specific cross-functional issues (theme committee).

The quarterly plenary session of the committee is attended by:

– representatives of HSBC France business lines/functions (Personal Financial Services and Commercial Banking, HSBC Technology and Services (HTS), Global Banking and Markets, Asset Management, Private Banking and Insurance);

– representatives of the nine risk functions (IT, business continuity plan, human resources, credit risk, market risk, structural interest rate/forex/liquidity risks, compliance, legal and tax, accounting);

– a representative of the Financial Operations Department;

– Head of Group Audit France;

– members of the ORIC Department responsible for management and acting as secretary for the committee.

Members of the theme committee are the same as those at plenary committee sessions, mainly to assist representatives of the business lines or functions concerned or experts in the cross-functional issues in question.

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

f Compliance Department

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

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

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

g *Finance*

The Finance Department is responsible for the proper application of the group's accounting principles and accounting control procedures. It defines the procedures and controls to be applied under the responsibility of each legal entity's accounting department and more particularly accounting and reconciliation procedures designed to verify the existence and validity of balance sheet, off-balance sheet items and income statement accounts. All business units have a finance function that reports monthly to the Finance Department. These departments are responsible for drawing up budgets and action plans in line with guidance given by Senior Management. As it is responsible for managing accounting, the Finance Department organised a number of meetings in 2009 to discuss the budget procedure, certification of the financial statements and Sarbanes-Oxley measures.

h *ORIC or Internal Control teams*

HSBC France's internal control procedures are based on business lines and risk management functions. ORIC or internal control teams have been set up within each business line and function.

Business lines

ORIC (Operational Risk & Internal Control) teams have been set up within each of the HSBC France group's five business lines: Retail Banking (Personal Financial Services and Commercial Banking and HSBC Technology and Services (HTS)), Asset Management, Insurance, Global Banking and Markets, and Private Banking.

Business line ORIC teams have two main duties:

1. to ensure the consistency of permanent control procedures by performing second-tier controls, which consist of regularly verifying the effectiveness of first-tier controls relating to all risks, whether credit risk, market risk (including liquidity and global interest rate risk) or operational risks (in the wider sense, i.e. all non-financial risks cited in regulation 97-02);
2. to coordinate and manage operational risk management procedures.

In this respect, the business line ORIC teams are responsible for coordinating operational risk management to meet Basel II regulatory requirements. They are in charge of listing the operational risks liable to affect their business lines. They work with the operational staff involved to analyse these risks and quantify them according to three parameters, i.e. frequency, impact and risk exposure.

One or more action plans are drawn up to mitigate risks classified as material. The ORIC teams are responsible for monitoring these action plans (roll-out, planning, budget control, etc.) and more generally for measuring their business's risk exposure and risk exposure trends, particularly through exposure indicators. They must also report operational losses in conjunction with their entity's accountants. Since 2006, the recording and updating of risks and action plans, along with loss reporting, have been managed in an IT application developed by the HSBC Group (GORDON or Group Operational Risk Database Online Network). Progress with action plans and operating losses reported by the business lines are periodically presented to the ORIC Committee of each business line. Furthermore, risk exposure indicators are defined by the business lines and support functions. These are reviewed by the business line ORIC committees set up within each business line and then summarised for the plenary meeting of the ORIC Committee.

Risk management functions

The ORIC or internal control teams of risk management functions are responsible for:

– managing and coordinating permanent control procedures, the general role of which is to ensure management of the risks for which the function is responsible for all HSBC Group entities in France, in collaboration with the business lines (in particular business line ORIC teams). In particular, the team maintains a map of the function's risks comprising procedures and key controls, which is reported to the business lines;

– second-tier controls of operating activities exercised by the function excluding parts of the function situated in the business lines or covered by business line ORIC teams;

– preparing and managing a committee dealing with risk issues.

i *Supervisory authorities and external Auditors*

The supervisory authorities and external Auditors may make recommendations on HSBC France's and its subsidiaries' internal control procedures. In this case, the divisions concerned promptly draw up action plans for their implementation. GAF monitors the implementation of all these recommendations on an annual basis, while HSBC France group Finance carries out quarterly monitoring relating to external Auditors' recommendations. The HSBC France Finance Department is also involved in centralised reporting to HSBC in London.

Internal control procedures

Procedures for controlling compliance with laws and regulations

Compliance function

Identification and control of compliance risks

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

The analysis of compliance risks is documented in risk assessments listing the laws, regulations, professional rules and the HSBC Group internal rules that apply to each business line or activity, and the procedures and controls that ensure compliance with these rules. Additional work was carried out in 2009 to harmonise assessments of compliance risks associated with the HSBC France group's various business lines within the framework of the directives defined by the HSBC Group's Compliance department, and to review the consistency of the measurement of cross-functional risks. Compliance risk assessments are updated at least twice a year.

There is a specific examination procedure for risks related to new products and services and significant changes to existing products. This procedure includes systematic prior review work by the entities and control functions involved, including Compliance. The aim is to ensure that all risks arising from new products and services are taken into account and analysed. In addition, new products meeting certain criteria are submitted for prior approval to the Product Examination Committee, which is chaired by the HSBC France's Deputy CEO in charge of risk and responsible for permanent control and whose secretary is the Compliance Department. The Compliance Department is responsible for ensuring that the relevant products comply with laws, regulations and internal standards and that the Product Examination Committee's requests and decisions are taken into account before the products are launched.

Monitoring of the compliance control framework

The operational performance of the compliance and incident control system is analysed through recurrent and one-off reporting procedures. Compliance exceptions are the subject of a report prepared by the compliance officer of the relevant entity that is passed on to the appropriate level of the compliance function. Action taken to remedy these incidents is then monitored on a regular basis.

The system's mode of operation and the main identified compliance risks are reviewed by dedicated control authorities, consisting of compliance representatives and operational managers. As part of the implementation of regulation 97-02 relating to compliance control, a Compliance Committee was set up in April 2006. The committee is chaired by the CEO of HSBC France and consists of the Chief Compliance Officer, Compliance Department Heads, the Deputy CEO in charge of risk and responsible for permanent control, the members of the Executive Committee in charge of business lines and the Head of the Legal and Tax Department. This committee has two roles. It makes decisions relating to the coordination of the compliance control system, and reports to Senior Management about how the system is working, any incidents and the corrective measures implemented. Within each subsidiary subject to regulation 97-02, the compliance officer reports on the operational performance of the compliance risk control system to the local permanent control committee, chaired by the member of the executive body designated as Head of permanent control. Specialist anti-money laundering committees exist within each business line and within the banking subsidiaries. The Compliance Department organises and acts as secretary for these committees, whose purpose is to deal with any matter related to efforts to combat money laundering.

Legal and tax functions

The HSBC France Legal and Tax Departments are responsible for the HSBC France group's legal and tax functions, and have analysed and mapped these functions' major risks. The Legal and Tax Risks Committee, chaired by the Deputy CEO in charge of risks and responsible for permanent control, meets quarterly to ensure that the risks system for legal and tax risks remains adequate in the face of changes in laws, regulations and organisations. The Committee also examines the monitoring of incidents raised previously, the results of controls, along with any new incidents and measures taken. It reports on its work to the HSBC France group Operational Risk and Internal Control (ORIC) Committee.

Each group subsidiary that is directly affected by regulation 97-02 draws up a half-yearly legal permanent control report signed by a lawyer and the Head of permanent control of the subsidiary for itself and the companies it controls. These reports highlight any significant subjects revealed by controls, or any control deficiencies and proposed plans of action to resolve any incidents observed during controls. Compliance certificates concerning tax obligations and operational taxes are also prepared twice a year.

At the HSBC France level, the Head of Tax prepares a half-yearly compliance certificate concerning tax obligations and operational taxes, while the lawyers in charge of legal risk in the various business lines draw up legal permanent control reports. Together, these reports cover all identified legal risks for all group entities. On the basis of these reports and certificates, HSBC France's Head of Legal and Tax draws up a half-yearly general report on the function's permanent control. This system was established by a new circular on 2 June 2009 and is fully operational.

Credit approval procedures

Credit risk function

Credit risk management within the HSBC France group is the responsibility of the Credit Risk Department (DRC), which is independent of the business lines and reports hierarchically to the Deputy CEO in charge of risk management and permanent control and functionally to the HSBC Group's European Risk Management Department.

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

Decisions and information concerning credit risk from the various RMCs are reported, in the same way as other risk categories, to the HSBC France Risk Management Meeting (monthly committee). Minutes of these committee meetings accompanied by a summary are then sent to the monthly European Risk Management Committee.

Role of RMCs

RMC meetings, which are attended by Senior Management, are the main bodies in charge of the HSBC France group's lending and credit risk monitoring policy. Their duty is to control credit activities, and to define the strategic direction of the HSBC France group's policy as part of the HSBC Group's general directives. They are informed by the DRC of the main lending decisions, the state and development of the various lending books and the operational performance of the Basel II system it uses to define its lending policy, and the permanent control results reported.

Phases of the credit process

- Lending powers

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

HSBC France's CEO holds credit powers granted by the Board of Directors of HSBC Bank plc and has delegated his powers to the Deputy CEO in charge of risks and responsible for permanent control, who delegated them to the Head of Credit. For amounts in excess of these limits, cases are referred to the HSBC Bank plc Credit Department in London. In this case, they must be formally recommended by the CEO himself, or, in his absence, the Deputy CEO in charge of risk management and permanent control.

The Head of Credit has in turn partly delegated his powers, depending on the type of counterparty as determined by its Basel II rating. These powers have mainly been delegated to DRC members in charge of lending decisions and some persons in charge within the Personal Financial Services and Commercial Banking branch networks.

- Credit documentation, analysis and decisions

A holder of lending powers is able to grant loans in compliance with the HSBC Group, the parent company HSBC Bank plc, and the HSBC France group lending directives. If the requested loan exceeds his/her lending powers, or falls outside the directives, the decision must be referred to the level above. All credit facilities are subject to periodic review on at least an annual basis, in accordance with French regulations and the HSBC Group standards.

The HSBC France group's lending rules consist of the HSBC Group, the parent company HSBC Bank plc and HSBC France directives. The central document for HSBC France is the HSBC France group's lending procedures manual (HSBC France BIM Credit).

- Credit monitoring

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

The DRC is in charge of this monitoring. For Commercial Banking activities, this is provided by the DRC's Monitoring team; for Personal Financial Services, monitoring is exercised primarily by means of statistical analysis of lending book behaviour. For both business lines, risk control is also monitored from a statistical viewpoint for each entity or business sector, performed by the Monitoring team.

Networks use the same monitoring tools (Vigirisk).

As regards lending activities in the Global Markets business, full responsibility for monitoring (with no thresholds) belongs to the general secretariat of Global Banking and Markets, where monitoring is carried out by Credit Support Unit (CSU) – Markets.

- Permanent control of lending activities

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

- Organisation of the system

The Head of permanent control in the HSBC France group's credit function is the Head of Credit.

The DRC and its members are the central unit of the credit function, which had two main local subfunctions in 2009:

– one for HSBC France networks and its subsidiaries (HSBC Private Bank France and HSBC Factoring (France));

– one for the Global Banking business and its subsidiaries.

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

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

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

- Specific control authorities

Permanent control information relating to lending activities is reported via three RMC committees. They are informed of any incidents in the credit function and of the corrective measures taken. A summary of this information is presented to the ORIC Committee.

- Tools

In order to ensure harmonisation of the work carried out by group internal control departments, procedures are based on Credit function's mapping, which ensures the uniformity of controls and expected reporting of information.

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

– data quality;

– Basel II monitoring (assessment of Use Test);

– compliance with governance rules for models.

Information is reported on a quarterly basis.

Internal control procedures are updated annually and approved by one of the RMCs. They are also updated whenever a major change is made.

Control procedures to limit risk of financial loss and fraud

Business continuity planning function

Firstly, the HSBC France group has comprehensive procedures for limiting the risk of financial loss and internal and external fraud. The main underlying principle is the strict separation of key duties in departments responsible for processing and initiating payments. Strict written rules are in place for the protection, receipt, storage and archiving of contractual and legal documents and an overall information protection policy has been implemented. Others procedures handle management of cash, securities and safe keys and organise the management and control of access to central buildings and the branch network with optimum security.

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

Human Resources

The permanent control procedures of HSBC France's Human Resources Department, which is responsible for the HSBC France group's Human Resources function, are described very clearly in circular 6229MM of 23 October 2009.

As part of this process, the department analysed and mapped the function's major risks, which are listed and updated regularly. This mapping serves as a support for the annual control plan. Risk indicators are also disseminated on a monthly basis to the Risk Management Meeting.

The People Risk Committee, chaired by the Head of Human Resources, meets quarterly to ensure the relevance of permanent control system for Human Resources risk. In addition to the main Human Resources Department managers, managers from the Human Resources departments of HSBC France subsidiaries also participate in this committee.

The committee also reviews the monitoring of incidents raised previously and the results of controls, along with any new incidents and measures taken. It reports on its work to the HSBC France group's Operational Risk and Internal Control (ORIC) Committee.

Market risk function

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

A risk management policy determined by HSBC France's Senior Management covers market risks by means of room mandates. The proposals made by the Market Risk Management department within the Market Risk Committee are reviewed and ratified by Senior Management.

The HSBC Group allocates these room mandates definitively to HSBC France using the process described in the Wholesale & Market Risk (WMR) section below. These global mandates are divided by business line and finally then translated into operational limits within each entity by the market risk managers.

These limits are expressed in terms of lists of authorised instruments, underlying instruments, markets and maturities, Value at Risk, sensitivity, maximum loss and stress tests. They are revised at least once a year by the Market Risk Committee and may be amended on an ad hoc basis.

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

Wholesale & Market Risk (WMR)

This team allocates risk limits to the various HSBC Group entities in the form of room mandates. These limits are also reviewed and ratified by a number of the Group's global committees: ALCO and RMM at HSBC Bank plc. WMR also checks compliance with the consolidated level of these room mandates and for each entity.

Market Risk Management and Control (MRMaC)

Within Wholesale and Market Risk (WMR), Market Risk Management and Control designs, develops and implements the market risk management policy, covering primarily:

– the development and implementation of procedures in line with best practices and regulatory requirements;
– the allocation of market risk limits within the HSBC Group compatible with its strategy and risk appetite;
– the approval of new products;
– Group consolidation of market risk exposure and Value at Risk (VaR) calculations.

More specifically:

a *Market Risk Management (MRM)*

Market Risk Management (MRM) defines market risk room mandates, manages overruns, analyses positions, ensures intra-day monitoring according to market movements, analyses the relevance of risk measurements (sensitivity, VaR, stress scenarios), provides Senior Management with an analytical overview of market risk, defines procedures for improving risk monitoring and implements new indicators, depending on market developments.

The Head of MRMaC France reports hierarchically to the General Secretary of Global Banking and Markets and functionally to the Head of MRMaC for the EMEA region.

With his team, he prepares the annual review of room mandates and, after an in-depth review and approval from the HSBC France group's market risk committee, submits it to WMR for approval via the Head of MRMaC for the EMEA region.

Market Risk Management then defines room mandates in the form of one-pager detailed mandates and desk mandates, which apply to each business unit or management unit.

The Head of MRMaC France is a member of the HSBC Group's Market Risk Committee, the HSBC France group's Balance Sheet ALCO and the HSBC France group's Capital Management Committee and participates in the HSBC France Audit Committee. He attends the periodical Senior Management information meeting organised by the General Secretary of Global Banking and Markets and also sits on the HSBC Bank plc global and EMEA Stress Test Review Group Committee.

b *Market Risk Control (MRC)*

The Market Risk Control teams are responsible on a day-to-day basis for checking compliance with all of the various market risk limits, regardless of the level of market risk and the type of limit in question. They report any overruns and also provide notification of any consumption above a warning threshold of 80% of the limit. They are also in charge of reporting on weekly pre-warning stress tests.

The Market Risk Control teams are aligned with the organisation of the business lines.

A dedicated team produces and distributes consolidated reports on HSBC France's market risks for Senior Management to be sent to the Group Consolidation department. This team is also responsible for producing the various summary statements required periodically for internal needs (material for Risk Management Meetings, etc.) and external needs (supervisory authorities, annual reports, etc.).

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

Quantitative Risk and Valuation Group (QRVG)

The management, valuation and assessment of risks relating to certain derivatives require the use of models developed by the front office research team. These models and the VaR model are validated by a specialist independent team, the Quantitative Risk and Valuation Group (QRVG). Its Head reports locally to the Head of MRMaC France and functionally to the Head of QRVG for the EMEA region.

Product Control

Product Control is independently responsible on a day-to-day basis for the production, analysis, recording and control of the daily valuation of positions, and also defines reserves and monitors the resolution of collateral disputes and QRVG recommendations in terms of model limits.

Valuation Committee

Managed by the Head of Product Control for Global Banking and Markets, this committee comprises members of QRVG, Product Control, MRM and front office representatives. It meets in the first two weeks of every month and discusses the parameters of models used by front office staff and valuation assumptions. During these meetings, the committee also reviews the development of the main calibration and price control indicators. Any particular models used in the systems are also reviewed in order to ensure that they are conservative.

The HSBC France group's Market Risk Committee

This committee meets every month and is chaired by the Deputy CEO in charge of risk management and permanent control. It supervises market risks in a systematic manner, ensures that appropriate controls exist and approves the main rules included in the supervision system.

The HSBC France group's Market Risk Committee features the main business line heads concerned by these risks and the main heads of the associated control functions. It includes the General Secretary of Global Banking and Markets, the Head of MRMaC France, the Head of QRVG, the CFO of Global Banking and Markets, the Head of Credit for Global Banking and Markets and the Head of Product Control for Global Banking and Markets.

MRMaC France acts as secretary of the committee.

The HSBC France group's Market Risk Committee reviews the summary risk and results indicators, analyses all significant events that occurred during the previous month, including any overruns of one-pager room mandates, instructs requests for permanent limits and revises limits that have been assigned temporarily.

The committee validates changes in the calculation method and risk measurement methods relating to guaranteed funds for Sinopia.

Any entity that generates market risks must present a request for the renewal or extension of its limits to the HSBC France group's Market Risk Committee each year. Lastly, market risks are presented to the monthly Risk Management Meeting, the Audit Committee and the Board of Directors of HSBC France. Periodic control of market risks as described above is the responsibility of Group Financial Services and European Audit (AUF), which is the HSBC Group unit in charge of the periodic control of worldwide capital markets activities.

Structural interest rate, forex and liquidity risk function

Structural interest-rate, liquidity and forex risks are managed centrally by the ALM Department (*Direction de la Gestion Financière du Bilan* – DGFB) which is part of the Finance Department. Since June 2009, capital management is provided by a specific department part of the Finance Department : Capital Department. In accordance with regulation 97-02, the DGFB has a map of this function's inherent risks, control procedures and a circular setting out the permanent control organisation.

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

Its task is to supervise balance sheet risks in a systematic manner, to ensure that appropriate controls exist and to approve the main management rules and limits included in the supervision system.

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

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

Structural interest rate risk

DGFB measures and manages structural interest-rate risk for all HSBC France group entities. The measurement tool is mainly based on an information system into which the various entities and departments feed their data.

Interest rate risk measurement relies on rules based on behaviour that are reviewed and validated regularly by Balance Sheet ALCO. Risk is measured and hedging transactions are carried out centrally by the DGFB. These activities rely on a set of controls on which a monthly statement is made. The process for the execution and accounting justification of hedging transactions has been documented, key controls have been identified and certificates drawn up according to Group standards, in accordance with Sarbanes-Oxley law.

Risk supervision is based on a set of indicators and stress scenarios, for which limits are set by Balance Sheet ALCO and HSBC Holdings plc. Control statements are also produced in relation to this reporting.

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

Liquidity risk

The relevant entities are responsible for measuring their liquidity risk by calculating a monthly regulatory liquidity coefficient, which is reported each quarter to the *Commission bancaire*. The Finance Department also calculates consolidated internal indicators and produces regulatory reports for the Financial Services Authority (FSA).

Short-term liquidity is managed by each entity, subject to regulatory rules and limits, as well as by HSBC Holdings plc and Balance Sheet ALCO. Financing transactions are carried out by the Treasury Department.

To ensure that liquidity risk measurement systems are closely supervised and to coordinate short-term management, the liquidity steering committee meets every month and consists of those responsible for executing transactions (Treasury), for reporting and for supervision (Finance Department). This committee is tasked with managing liquidity ratios, preparing the funding plan, looking into alternative sources of funding and handling any matters relating to liquidity.

The DGFB carries out supervision based on the various reporting documents submitted to it. It coordinates the work done by the liquidity steering committee and the implementation of the funding plan.

The liquidity steering committee's report, along with liquidity indicators, various cash flow stress scenarios and monitoring reports on funding sources, are presented monthly to the Balance Sheet ALCO, which defines limits with HSBC Holdings plc that are supplementary to regulatory limits.

Structural exchange rate risk

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

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

Control procedures for financial reporting

Accounting and Financial function

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

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

HSBC France's accounting architecture is based on event-driven operating systems. At the end of each day, an interpreter converts the events into journal accounting entries. The operating systems comprise specialised applications devoted to a particular activity (loans, credit, securities transactions, foreign exchange transactions, etc.). Some transactions, which are not managed by these systems or which are not ordinary events (taxes, provisions, etc.) are entered into the accounting system using secure manual data entry tools under sundry transactions. Like the other operating systems, they send events to the accounting interpreter, thereby providing pre-set controls.

HSBC France's banking operations are heavily automated using internally and externally developed software systems to provide consistent, reliable and timely processing of information. Systems are tested by developers before user acceptance tests are carried out. Specific internal training programmes are designed to ensure that users fully understand the new process and its consequences.

HSBC France's subsidiaries have their own accounting systems similar to those of HSBC France, or else they use integrated software suites. HSBC France has embarked on a systems convergence plan to standardise accounting systems throughout the HSBC France group. The introduction of IFRS means that accounting systems are being adapted to allow HSBC France and its main subsidiaries to produce partially consolidated financial statements using both French GAAP and IFRS, and to create common tools (provisions, etc.). The HSBC Group's integrated System 9 consolidation software meets all parent company regulatory requirements for the production of financial information. It also handles IFRS consolidation and reporting to HSBC Bank plc.

The introduction of a financial datawarehouse in early 2005 has facilitated reconciliation and consistency between reporting for accounting, financial, regulatory and management purposes. The datawarehouse stores data from both HSBC France and its subsidiaries, including accounting data, carrying values and detailed breakdowns of accounting values depending on the information required for internal and external publications. Consistency controls have been established within the datawarehouse, which feeds the System 9 consolidation software and is used to produce the various French regulatory reports via Evolan Report software.

Internal control over accounting information production

HSBC France's financial control environment is based on routine controls such as basic reconciliation, audit trails and spot checks by financial control staff. According to the Group's rules, HSBC France draws up a monthly certificate of accounting reconciliation which is sent to the HSBC Group Finance Division. This certificate attests that all accounts are properly reconciled and is a summary of accounting reconciliation certificates provided by the various accounting and financial departments of HSBC France and its subsidiaries. This monthly reporting is based on the principle that each general ledger account is assigned to a specific person who is responsible for its reconciliation and signs the corresponding accounting certificate. This is the responsibility of the subsidiary and the Head of the Accounting and Finance Department. Any anomalies identified by the reconciliation certificate are used as a basis for corrective action by the business units involved, with the establishment of an action plan.

The Finance Department also receives GAF and AUF audit reports and uses them to monitor the implementation of accounting and finance-related recommendations. Statements to the supervisory authorities that contain accounting information are prepared directly by operational departments. Each Accounting or Finance officer examines and validates the information before submitting it to the HSBC France Finance Department. The process is formalised every quarter through the signature of financial statements sent. This control is one of the permanent accounting controls defined as part of HSBC France's compliance with the requirements of regulation 97-02. Financial reports are submitted to the Chief Financial Officer and Executive Committee of HSBC France and, before the financial statements are published, sent to the HSBC Group's Finance Department for presentation to the Group Management Board and HSBC Bank plc's Executive Committee.

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

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

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

Weaknesses identified within the framework of these controls should be corrected as soon as possible and a dedicated team has been set up to follow and coordinate all such work. HSBC France's Audit Committee is informed each quarter of the results of controls carried out and progress made in the main plans of action. A certificate signed by the CEO, the CFO and the Head of Audit (periodic control) is sent twice a year to HSBC Bank plc, attesting to the effectiveness of financial internal control procedures and specifying, if necessary, any weaknesses in the process of being corrected.

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

Procedures for ensuring reliability of data processing

IT function

Responsibility for the IT risk function

The IT function's duty is to ensure the security of IT systems. To this end, it has established a permanent risk analysis and prevention system and has the resources to identify and control risks.

The system is intended to:

- provide a sufficient level of security, which is periodically reassessed and adjusted;
- ensure the availability of IT back-up procedures to guarantee business continuity;
- store and permanently update IT systems documentation;
- archive data required by external regulations; and,
- make IT systems comply with audit trail requirements.

The system involves IT processes that are clearly identified, addressed and documented. Key process and application-level controls to combat risks and meet AICP (Availability, Integrity, Confidentiality and Proof) requirements are also identified, addressed and documented.

The officer responsible for permanent control in the HSBC France group's IT function is the Chief of Technology and Services Officer (CTSO). For Technology and Services (HTS) France, he relies on the HTS Head of Internal Control, who reports to the HTS Head of Finance and Controls. The HTS Head of Internal Control defines and carries out regular maintenance on the control system. He identifies the function's major risks and the key controls required to address them and is supported by those in charge of IT processes, and at the level of business line functions, the IT managers of these business line functions, who must locate and ensure the application of identified key controls. Malfunctions identified by control procedures are immediately reported to the IT function's Head of permanent control.

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

- regular monitoring of the implementation of IT audit recommendations;
- reports on permanent controls (compliance with security policies, emergency plan, intrusion tests);

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

The results of these compliance measures are presented periodically in HSBC France group committees (RMM, ORIC Committees) and internal by HTS (HTS ORIC).

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

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

The efficiency of internal control procedures implemented at the level of IT processes and intended to combat major IT risks is assessed quarterly by the HTS ORIC Committee, made up of members of the HTS Management Committee, who own the IT processes identified.

Acquisition or development of information systems (applications or infrastructure)

A group project management method is used to acquire and develop information systems: RBPM (Risk-Based Project Management). This method imposes control points throughout the project cycle, from initial business unit request to go-live. These control points ensure that each stage of the cycle is complete and approved by all stakeholders. Project risks are reassessed in these key phases.

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

Testing

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

Testing plans, testing results and anomalies found are stored on a Group IT validation management tool (Quality Center), which makes all validation information available to all staff involved in projects.

Each test phase must give rise to a certification: at each stage, a report is signed and validated by the testers, their manager and the person in charge of the subsequent testing phase. For production testing, the validation of the Change Control Committee is required.

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

System go-live control

The Change Control Committee established by HTS is responsible for examining and approving changes prior to implementation and monitoring progress on a monthly basis. A signed implementation certificate is required before development can go ahead. Flagship projects must be validated by the project sponsor in a go/no go committee meeting. For applications and systems, new versions are implemented and checked by "configuration control tools" specific to each environment.

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

System access control

Validity checks of accounts and passwords are carried out for anyone with access to IT resources. Access is granted subject to approval from the person's hierarchical manager and administered by a dedicated HTS team (IT Security).

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

Operations control

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

Information security policy

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

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

The IT function is central to this process and is intended to play an active role in risk measurement.

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

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

Stuart Gulliver
Chairman

Paris, 16 February 2010

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

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

Year ended 31 December 2009

To the Shareholders,

In our capacity as Statutory Auditors of HSBC France, and in accordance with Article L. 225-235 of the French Commercial Code ("*Code de commerce*"), we hereby report on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code ("*Code de commerce*") for the year ended 31 December 2009.

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

It is our responsibility:

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

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

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

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

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

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

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

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

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

Other disclosures

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

Paris-La Défense and Paris, 26 April 2010

KPMG Audit	BDO France – Léger & Associés
Department of KPMG S.A.	Michel Léger
Pascal Brouard	*Partner*
Partner	

Sustainability

Sustainability, a driver for long-term success

To establish and maintain the confidence of all stakeholders in HSBC, the Group's strategy is based on an active culture of sustainable development. Its policy in this domain, one of the pillars of which is the fight against global warming, defines and provides a framework for its actions. In 2009, HSBC was ranked second by Goldman Sachs' GS Sustain analysis into environmental, social and governance policies of global banks.

Other recognition: HSBC topped financial sector ranking in the Carbon Disclosure Project (CDP). The CDP is an independent international organisation comprising 475 major institutional investors with assets totalling USD 55,000 billion. Its aim is to encourage the development of a shared methodology for measuring greenhouse gas emissions and to facilitate its use in a more global analysis of financial investments. It publishes an annual report on the integration of climate change in the strategies of the top 500 global companies on market capitalisation, which are responsible for 11.5 per cent of the world's greenhouse gas emissions.

In 2009, the HSBC Group announced:

- its active support for a strong commitment at Copenhagen. The Group signed the Copenhagen Communiqué, a call by the business leaders of over 500 global companies for an ambitious global deal on climate change. The HSBC Group believes that the long-term future of its customers, and therefore its own, is directly linked to control over climate issues. It therefore endeavours to gain a better understanding of the risks and to encourage the emergence of a legislative framework that will significantly restrict greenhouse gas emissions. To support this, the HSBC Climate Change Centre published 30 leading research papers on climate change and investment opportunities in 2009;
- a total of USD 530 billion of revenue generated by the climate business sector has been estimated by the HSBC Climate Change Centre's Green Stimulus Report. The initial forecast was USD 500 billion in 2020. A new estimate has therefore been made and the aggregate revenue of companies in the green economy is now expected to reach USD 2 trillion by 2020;
- each year, and for the third time in 2009, HSBC conducted an internal survey, the Global People Survey, to measure the level of satisfaction of its employees across the globe. At Group level, Global People Survey results showed 81 per cent of employees are satisfied with the actions HSBC is taking to embed sustainability into the business;
- the results of the third edition of the HSBC Climate Confidence Monitor Index, a survey of 12,000 people in 12 different countries, conducted by the *Observatoire de la Confiance Climatique* (Climate Confidence Observatory). The aim of the survey is to assess people's concerns, confidence, commitment and optimism regarding climate change, and how capable they feel governments and companies are of responding to this major challenge. The survey, which was conducted three months before the Copenhagen summit, revealed that almost two thirds (65 per cent) of respondents felt that a new international agreement on reducing greenhouse gas emissions was "extremely important" or "very important". It also revealed a broad international consensus on the CO_2 reduction targets, with 79 per cent of respondents expressing a desire to see governments commit to "achieving or largely exceeding" a reduction of 50-80 per cent by the year 2050.

A Corporate Sustainability department reporting directly to the CEO of HSBC France is responsible for implementing Group initiatives in France. It also runs the Sustainable Development Committee, which meets quarterly. The Committee communicates the policies defined by the Group and supervises the commitments undertaken by each Department in France. Its objectives are to assist the business lines in incorporating sustainable development into their banking activities, take measures to ensure that the Group's environmental commitments are met, and make sustainability a core pillar of the corporate culture, mainly by using corporate philanthropy initiatives to drive employee engagement. A team of six people is responsible for implementing actions in collaboration with a network of correspondents in each business activity: Private Banking, Purchasing, Communications, Compliance, Buildings Management, Company Secretary, Human Resources, Credit, Global Banking and Markets, Commercial Banking, Personal Financial Services, Information Systems, Asset Management and Insurance. In 2009, HSBC France rounded out this structure by setting up a specific Committee to monitor direct impacts.

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

Sustainability (continued)

Incorporation of sustainable development into the Bank's activities

The HSBC Group serves individuals, small and medium enterprises, corporates and large corporates in around 8,000 offices in 88 countries and territories. Given its size, its decisions can have a significant impact, not only on the economy but also on society and the environment. Responsible lending and investing is the rule guiding risk management policies and business development strategy. In 2009, HSBC France adopted a number of new initiatives to improve the integration of sustainability issues in its businesses.

A "Deyrolle" Poster for the Future on the theme of SRI

To make its customers and the general public aware of Socially Responsible Investment (SRI), HSBC Global Asset Management and HSBC France's Sustainable Development Department worked with the publishing house Deyrolle to design an educational poster on the theme of SRI. It has received the seal of approval from the UNESCO Decade of

Education for Sustainable Development and from the MEEDDAT (Ministry of Ecology). It is available to schools through the National Education Department and is also presented and on sale in HSBC France branches.

Two socially responsible investment funds with the Novethic label

HSBC has rationalised its SRI range, which covers equities and bonds, the two main asset classes. HSBC Actions Développement Durable and HSBC Obligations Développement Durable have developed environmental, social and governance information for their portfolios and provide a detailed monthly report on their investments. Their efforts have been rewarded with the "ISR Novethic 2009" label, which is awarded to Socially Responsible Investment Funds that use a full Environmental, Social and Governance (ESG) analysis and provide comprehensive information on their extra-financial features and their composition. The label is recognition of the quality of HSBC Global Asset Management's approach. HSBC Actions DD and HSBC Obligations DD both outperformed the market, which combined with a volatility similar to non-SRI funds, proves their ability to deliver high-quality performance enabling investors to invest in accordance with their principles and to support companies that develop best ESG practices.

Heightened support for microfinance activities

Microfinance consists in delivering small-scale financial services, such as loans, savings, insurance and fund transfers, to people who are excluded from the mainstream banking system. Based on a commercial approach, microfinance can constitute a sustainability activity in its own right.

In 2009, HSBC France continued its commitment to solidarity through several actions:

– increasing the line of credit granted to the ADIE (Association for the Right to Economic Initiative), which now stands at EUR 3 million, and donating a portion of the employee savings budget dedicated to social inclusion initiatives. This donation has been increased from EUR 40,000 to EUR 100,000;

– support for FinanCités, a solidarity-oriented venture capital fund created by Planet Finance, in which HSBC France acquired a EUR 1 million interest in 2007. At the end of 2009, FinanCités had financed the development of 35 small businesses operating in deprived neighbourhoods.

Launch of a keyman insurance policy

The challenge of sustainability lies in combining long-term business performance with social and environmental concerns. In 2008, with a view to sharing its commitment and practices with entrepreneurs and small and medium-sized business managers, HSBC France created Living Business, a practical information resource, to help them gradually incorporate sustainability into their business activities. In 2009, HSBC France enhanced Living Business by developing "HSBC Keyman Insurance", two complementary policies to protect the company in case of the death or disability of the manager or any other person who plays a key role in the business.

Launch of a property investment fund encouraging social development overseas

HSBC France offers its Premier customers the opportunity to invest in SCPI Sema2i, a tax-efficient investment generating an annual net return of 9 per cent thanks to the tax breaks available on the projects it finances. SCPI Sema2i finances the construction of social housing in New Caledonia, equipped with solar water heating systems. It is therefore eligible for the Girardin Law scheme, which aims to encourage development overseas and also benefits from an additional tax reduction due to the use of renewable energy.

Launch of e-statements

HSBC France has introduced an electronic bank statement service for its retail customers. The statements are available in pdf format and are an exact reflection of the paper statements. They can be downloaded from the "*Ma banque en ligne*" online bank anywhere at any time. Electronic statements are available for current accounts, cheque accounts, debit cards with month-end payment and all traditional savings accounts. They are issued on the same dates as the traditional statements and customers are alerted by personal message in their online banking space. When the service was launched, HSBC donated EUR 10 to the National Forestry Office (ONF) for each of the first 15,000 customers to sign up.

Launch of a virtual bank branch in the first virtual world dedicated to sustainability

In 2010, HSBC France renewed its 2009 partnership with SOS-21, the virtual world dedicated to sustainability. A virtual HSBC branch provides customers with a fun – and totally free – way to learn about HSBC's commitment to sustainability. Players create their own avatar and act out scenes of everyday life. They can do things to obtain information about and become familiar with environmental issues, which then encourages them to adopt a responsible behaviour. HSBC is the first company to penetrate the SOS-21 virtual world. Its virtual bank branch is on the Champs-Elysées, where a customer service officer welcomes players and guides them towards the various interactions available.

Managing the environmental footprint of operations

HSBC is the first bank in the world to have committed to identifying, controlling and compensating for all its energy consumption. In 2005, it became carbon neutral and is continuing its efforts to improve its energy performance every year. In June 2007, the Group launched a USD 90 million Global Environmental Efficiency Programme with the aim of further reducing the direct impacts of its activities on the environment. In keeping with the commitments made by the Group since 2004, HSBC France endeavours to manage its environmental impacts on a sustainable basis.

Having beaten all its targets for 2005-2007, HSBC France has set new ones for 2008-2011. It aims to reduce its energy consumption by 2.8 per cent, its water consumption by 5 per cent, its production of non-recycled waste by 6 per cent and its energy consumption related to CO_2 emissions by 1.4 per cent. The HSBC Group's targets are 8 per cent (energy), 11 per cent (water), 10 per cent (non-recycled waste) and 6 per cent (CO_2).

In 2009, HSBC France reduced its water consumption by 10 per cent, achieving its three-year target in just one year. Its energy consumption was reduced by 2.2 per cent, whilst CO_2 emissions increased by 2.9 per cent, due simply to a change in some conversion factors, and waste production rose by 7.5 per cent due to major movements at two large premises and to the branch network expansion plan. However, the proportion of recycled waste to total waste rose from 55 per cent to 60 per cent, an increase of more than 17 per cent compared with 2008.

To meet its commitments, HSBC France will continue the efforts begun in previous years, placing an even greater emphasis on its property assets. Actions taken under this programme are described in the NRE appendix (videoconference equipment, energy performance and renewable energy survey, automatic lighting controls), and in the section below entitled "Raising awareness of all target audiences" (Green Branches competition, Sustainable Development Awards). The 2009 budget earmarked for the Global Environmental Efficiency Programme was used in full.

Diversity at the centre of the Human Resources policy

It is HSBC's ambition to become the best employer. For the past three years, the Group has conducted an annual employee engagement survey to measure the satisfaction of its staff, their involvement, their pride in belonging and their desire to promote the company. In July 2009, 86 per cent of HSBC France employees responded. Two thirds of them applauded HSBC's investment in sustainability and expressed their pride in working for HSBC.

HSBC employs 300,000 people in 88 countries. Diversity is a fact of life and a key component of HSBC's corporate culture. The Human Resources Department at HSBC France is committed for the long run and endeavours to make this policy a reality in four different domains: diversity of origin, disability, gender equality in the workplace and age diversity.

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

Sustainability (continued)

In 2008, HSBC France gave concrete expression to its commitment by creating its own Internal Charter, a variation on the National Charter. Along with the charter, the group also distributed a film on diversity, designed to establish dialogue and contribute to the debate on diversity during group meetings led by managers.

A new Group Agreement on career management for older employees was entered into on 12 October 2009. The agreement, which is the result of new legislation on age discrimination in the workplace, is designed to encourage companies to retain its older members of staff. It contains provisions on career management, working hours, pay and training.

Actions taken in terms of gender equality have resulted in an increase in the proportion of women holding positions of responsibility. At 31 December 2009, women accounted for 47 per cent of managers, 31 per cent of branch managers and 22 per cent of head office managers.

For six years now, HSBC France pay agreements have included a budget to promote equal pay for men and women. A total of EUR 3 million have now been invested in this field. In 2009, HSBC France decided to resolve the majority of pay discrepancies identified in a shared analysis, by allocating an exceptional budget of EUR 2 million. One thousand women received a pay increase under this equal pay policy.

Lastly, HSBC France and seven other companies committed to a pilot project called "Phénix", the objective of which is to diversify sources of recruitment and to recruit students studying for a masters degree in human and social sciences. Eight candidates have been recruited in three years.

Raising awareness of all target audiences and encouraging everyone to get involved

To make each and every employee feel concerned by sustainability issues and the Group's sustainability policy, HSBC communicates, informs, trains and involves its staff and customers in its approach, assisted by the partners it supports under its corporate philanthropy policy.

Once again this year, HSBC France has rewarded ecological initiatives taken by its branches through the "HSBC Green Branch" competition, and the best socially responsible projects undertaken by its employees through the Sustainable Development Awards (*Trophées Développement Durable*). In 2009, these two internal awards attracted strong interest, with 26 entries received and 45 employees involved.

To clarify the links between the various employee volunteer programmes, HSBC France has created an internal slogan "*Je m'implique*" which is now included in all communications in this field. For its launch, HSBC France organised a "*Je m'implique*" internal forum dedicated to voluntary engagement. Around 180 employees learned about some twenty associations supported by the Bank, in which they can take part on a voluntary basis. The forum was an opportunity for HSBC to thank its volunteers and encourage new interest by presenting the achievements of the *Fondation HSBC pour l'Education* and the opportunities offered by other sustainability programmes. It was also an opportunity for employees to bond around their philanthropic engagement and to promote all staff volunteers, associations supported by the *Fondation* and those who benefit. In 2009, 2,409 employees devoted 15,000 hours of their personal time to voluntary work.

HSBC France also partnered "*Train de la planète*", a free-of-charge travelling exhibition devoted to the environment held from 15 September to 11 October 2009. HSBC France was present at the exhibition to provide concrete information on the bank's role in sustainability, run conferences on socially responsible savings and organise a national competition aimed at ten to eleven year olds. This inventive and fun event was designed with the exceptional contribution of Michel Chevalet, a well-known French scientific journalist and author. It addressed four major issues: climate, water, energy and resource management.

Lastly, HSBC France General Management has entered into an incentive agreement with the social partners based on the achievement of water and energy consumption targets. It covers the period 2009 to 2011 and applies to all HSBC France employees.

Corporate philanthropy at the service of education and the environment

In 2009, HSBC France devoted more than EUR 1.2 million to charitable programmes. Its priorities are education and protecting the environment. HSBC believes that staff involvement is key to awareness and therefore actively supports their initiatives.

In education, HSBC France came to the aid of almost 6,000 children in 2009 and enabled 956 employees to take part in its actions.

HSBC France takes part in campaigns organised by HSBC on a global scale, such as SIFE, an association promoting free enterprise to students at the major schools and universities, and Future First, a USD 10 million five-year programme (2007-2012) that aims to improve the living standards of very underprivileged children.

In addition, HSBC France has engaged in its own initiatives, such as the *Fondation HSBC pour l'Education*, created at the end of 2005 under the aegis of the *Fondation de France*. Its mission is to support the initiatives of associations and institutions whose goal is to facilitate access to education for young people in deprived areas. Since its first call for projects, 60 projects have received human and financial support, including 12 new ones in 2009. In addition, the support granted to 22 of the 29 projects selected in 2007 and 2008 has been renewed this year. This decision brings the total number of projects supported in 2009 by the *Fondation HSBC pour l'Education* to 34.

In environmental protection, 863 employees took part in local programmes in 2009. Environmental action days were organised, for example in the Vexin and Marquenterre natural parks and in the rocky inlets at Marseille. This approach is part of the Group's global HSBC Climate Partnership programme launched in June 2007. The five-year programme has a budget of USD 100 million. Its objective is to preserve the world's major rivers and forests and promote employee engagement in conservation, research and environmental protection projects. Thirty HSBC "Climate Champions" have been trained in climate change issues by scientists at the Earthwatch Institute and are real environmental protection ambassadors for the Group.

In addition, through their practice of a sport, 590 HSBC France employees have helped support environmental protection or promote education for children from deprived neighbourhoods through a new programme called "*Les Foulées Durables*". HSBC France pays the employee's competition entrance fee and donates an identical sum to one of the four associations supported by the programme.

Managing reputational risk associated with the exercise of our businesses

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

Managing reputational risk is key to retaining the confidence of the various stakeholders in the company and consequently its financial performance. This major issue for the Group is complicated by the growing challenges of climate change, world population growth and the emergence of a lower carbon economy. Governance, financing policy, compliance and ethics form a set of complementary rules that help develop the company in a climate of confidence.

The Compliance function, created in 2001 at HSBC France, is responsible for ensuring that Group activities are conducted with integrity and professionalism, in accordance with the laws, regulations and professional practices applicable in France. It therefore addresses major issues such as the prevention of money laundering and terrorist financing, and compliance with the duty of best information and advice towards customers.

The Compliance function is coordinated by a Compliance Committee chaired by the CEO of HSBC France and attended by the various Senior Executives responsible for the group's businesses. It meets quarterly to oversee the compliance control system, ensure that any areas of non-compliance risk are identified and that appropriate corrective measures are taken.

The HSBC Group attaches great importance to corporate governance rules, both for itself and its subsidiaries. HSBC France has opted to apply the corporate governance rules for listed companies published in December 2008 by the AFEP and MEDEF. However, as HSBC France is a 99.9 per cent subsidiary of the HSBC Group and is not listed on a regulated market, some of the corporate governance rules have been adapted [1].

Appendix – 2009 NRE decree – Environment section

Information on the impact of our activities on the environment, in accordance with Article 2 of Decree no. 2002-221 of 20 February 2002, in application of Article L. 225-102-1 of the French Commercial Code.

The figures for 2009 correspond to the HSBC France perimeter at end 2009.

1 *Cf. page 20.*

Sustainability (continued)

Water consumption

HSBC France has set a new target of reducing its water consumption by 5 per cent between 2008 and 2011. To achieve this, HSBC France continues to optimise its systems and adopt technologies allowing it to restrict the quantity of water used.

In 2009, 166,402 m^3 of water were used by the 10,322 employees working at HSBC in France (FTEs), i.e. 16.12 m^3 per person, down from 2008 levels (see table below).

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

The special effort made in 2008 to eliminate high water consumption installations was stepped up in 2009. Eight open-circuit air conditioning units were removed in 2008 and this was followed by 17 more in 2009, leading to annual savings of about 15,000 m^3.

	2009	2008[1]	2007	2006
Water				
in thousands of m^3	**166**	186	246	258
per person (m^3)	**16.02**	16.66	18.07	19

Consumption of raw materials

Paper consumption

In 2009, HSBC France continued its efforts to reduce the use of paper. Several studies were undertaken with a view to promoting electronic document management, identifying change drivers and raising staff awareness of the need for a more sparing use of paper. In 2008, HSBC France offered all employees with an HSBC bank account the option to receive their bank statements online. In 2009, this option was extended to all retail customers.

This achievement was the result of a joint project undertaken by the Operations Department, HSBC Technology Services, the Multichannel Distribution Department and Personal Financial Services, as part of HSBC's sustainability strategy. To this end, a partnership was forged with an association involved in environmental protection. When the e-statement service was launched for retail customers, HSBC France donated EUR 10 to the National Forestry Office (ONF) for each of the first 15,000 customers to sign up.

	2009	2008[1]	2007	2006
Paper purchases (tonnes)	**1,874**	2,170	2,651	2,785

1,874 tonnes of paper were used in 2009, a decrease of 13.6 per cent compared with 2008.

HSBC France was able to decrease its use of paper significantly by standardising the various printed documents following the merger into a single legal entity. An organisational project was also carried out and resulted in the elimination of a large number of internal statements.

Consumption of office supplies

In 2007, a minimum order of EUR 50 was introduced to limit the number of small deliveries of office items. This action produced its full impact in 2009, with the number of orders under EUR 50 falling from 1,860 in 2008 to 713 in 2009.

Energy consumption

HSBC France has undertaken to reduce its energy consumption by 2.8 per cent between 2008 and 2011. In 2009, its energy consumption had already been reduced by 2.2 per cent. Like last year, this performance was achieved through various improvements to its buildings and by greater use of energies that emit less CO_2. The installation of automatic lighting controls in high energy consumption premises delivered satisfactory results, for example one of the buildings at Nanterre saw its total electricity consumption fall by 11 per cent. The programme to remove fuel oil boilers continues and properties are gradually being fitted with low-consumption lighting and double-glazing. The five preliminary energy reviews carried out in 2008 also helped improve
energy performance, especially at a major branch in the south of France where electricity consumption was reduced by more than 30 per cent.

Finally, staff awareness campaigns conducted during the year have also given employees a better understanding of HSBC's environmental commitments and a more personal involvement in the drive to reduce energy consumption.

	2009	2008[1]	2007	2006
Energy consumption (GWh)	**76**	78	98	106
Energy consumption (MWh) per FTE	**7.39**	6.99	7.2	7.95

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

Energy consumption breaks down as follows:

	Electricity	Gas	Fuel oil	Hot/ cold
Consumption in GWh	**55**	11.2	1.5	8.7

Discharges into the air, water and soil

Twice a year, HSBC France estimates its carbon dioxide (CO_2) emissions as part of the worldwide review conducted by the HSBC Group. In 2009, HSBC France emissions totalled 10,126 tonnes, an increase of 2.9 per cent compared with 2008, due simply to the change in some CO_2 conversion factors. This figure includes emissions related to Group activities, such as business travel.

HSBC France has set a target of reducing its CO_2 emissions associated with energy consumption by 1.4 per cent by 2011. Thanks to actions undertaken, this target was achieved in the first year of the cycle.

Noise and odour pollution

Non-significant in the business exercised.

Waste and non-recycled waste

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

	2009	2008[1]	2007	2006
Waste production (in tonnes)	**2,211**	2,070	3,284	3,550
Waste production per FTE (in kilogram)	**214**	185	241	266
Percentage of waste recycled/total waste	**60%**	55%	44%	40%

In 2009, waste production increased by 7.5 per cent following major movements at two large premises which led to an increase in paper and cardboard waste. The branch network expansion plan also generated site waste which increased the amount of waste production.

By contrast, the recycled proportion of total waste rose from 55 per cent to 60 per cent in 2009, representing an increase of more than 17 per cent compared with 2008. These achievements are the result of regular work with multiservice providers, whose contracts are regularly renegotiated, to improve traceability and optimise waste management.

The plastic bottle collection pilot project set up in 2008 was approved and rolled out to the entire site. A new drinking water supply contract (water fountains) signed at the year end should save 9 tonnes of plastic waste from the existing water dispensers at head office premises. Electrical and electronic waste (PCs, laptops, screens, printers, UPSs and other computer or electrical equipment) is still recovered by our service provider for recycling or destruction.

The service provider is an ESAT (assistance through work company), whose aim is to help reintegrate people with psychological difficulties into work and society. It therefore serves the dual purpose of recycling the electronic and electrical waste whilst assisting people in difficulties.

In 2009, more than 50 tonnes of computer and electronic equipment were collected, sorted and recycled or otherwise used. Almost 47 tonnes were re-used or re-sold.

Lastly, office furniture in good condition but being replaced was either recycled as part of an innovative pilot scheme or donated to schools and associations.

Measures taken to limit harmful effects on the ecosystem and on protected plant and animal species

HSBC France, like the HSBC Group, applies the Equator Principles in its business activities and thus includes social and environment criteria in its loan application and review process. It has also adopted Group guidelines on project financing in the following sectors: forestry and forestry products, chemicals, freshwater, mining, energy and defence.

In terms of printing and photocopying, HSBC France continues to use paper certified by the FSC (Forest Stewardship Council) – an international organisation for sustainable forestry management – for a growing number of its publications.

A campaign was launched in 2008 to get our printers to use FSC paper, which has resulted in a marked increase in our purchases of FSC paper. Today, more than 50 per cent of all paper used is FSC certified and 95 per cent of our Marketing and Communications publications are printed on FSC paper. By the end of 2009, all reams of A4 paper ordered were FSC certified.

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

Sustainability (continued)

Measures to ensure that the company's business complies with the applicable legislation and regulations

Under the impetus of its parent company, HSBC France established a Compliance Department in 2001 to create a consistent, effective control system. The department ensures that the Group's activities are exercised with integrity and professionalism, in accordance with all the laws, regulations and professional and ethical standards applicable in France.

It controls compliance with the duty of best advice and is involved in some major areas such as the prevention of money laundering and terrorist financing.

Risk management

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

The most important types of risk arising from financial instruments are credit risk (which includes country and cross-border risk), liquidity risk and market risk. Market risk includes foreign exchange, interest rate and equity price risk. The information regarding these risks arising from financial instruments are available in the notes to the consolidated financial statements, according to IFRS 7[1].

The management of other risks which are significant to the HSBC France group is discussed below. In compliance with the requirements of regulation 97-02, the HSBC France group has strengthened its permanent control system, which is structured according to the major areas of risk. The control systems implemented for the nine risk areas determined to date (structural interest rate/forex/ liquidity risk, market risk, credit risk, information systems, accounting, business continuity plan, compliance risk, legal and tax risk, human resources) are described in the Chairman's report on internal control procedures[2].

Capital management
(audited information except where stated)

Capital measurement and allocation

The *Commission bancaire* (the French banking commission) is the supervisor of the HSBC France group and, in this capacity, receives information on its capital adequacy and sets minimum capital requirements.

Under the European Union's Banking Consolidation Directive, the *Commission bancaire* requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets. In accordance with the EU Capital Adequacy Directive, the *Commission bancaire* allows banks to calculate the capital requirement of their trading portfolio using Value at Risk (VaR) techniques.

The HSBC France group's capital resources policy is to maintain its capital base through the diversification of its sources of capital and the efficient allocation of capital. It seeks to maintain at all times a prudent relationship between its total capital, as measured according to the criteria used by the *Commission bancaire* for supervisory purposes, and the varied risks of its business.

The HSBC France group capital is divided into two tiers. Tier 1 capital comprises only core tier 1 capital as no innovative tier 1 securities have been issued by the HSBC France group. Core tier 1 capital comprises shareholders' funds and minority interests, after adjusting for items reflected in shareholders' funds which are treated differently for the purposes of capital adequacy (mainly cash flow hedge reserves, reserves arising from revaluation of property and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale). The book values of goodwill and intangible assets are deducted from tier 1 capital. Tier 2 capital comprises qualifying subordinated loan capital, part of the reserves arising from revaluation of property, and part of the unrealised gains arising on the fair valuation of instruments held as available-for-sale. To calculate the total amount of regulatory capital, the carrying value of financial investments banks and insurance companies is deducted from these two categories of capital, plus any items specified by regulations.

Basel II provides three approaches, of increasing sophistication, to the calculation of pillar 1 credit risk capital requirements. The basic approach (standardised) requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories to which it applies standardised risk weightings. The next level, the internal ratings-based ("IRB") foundation approach, allows banks to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a counterparty will default ("PD"), but with quantification of exposure at default ("EAD") and loss given default estimates ("LGD"), the two latter being subject to standard supervisory parameters. Lastly, the IRB advanced approach allows banks to use their own internal assessment of not only PD, but also the quantification of EAD and LGD. Expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement under the IRB approach is intended to cover unexpected losses and is derived from a formula specified in the regulatory rules, which incorporates these factors and other variables such as maturity and correlation.

To assess its credit risk at end 2009, with the approval of the *Commission bancaire*, the Group used the IRB Advanced approach for sovereign, banks, corporates and retail exposures, covering the majority of its activities (in 2008, the Group used the IRB Foundation approach for its corporate exposures). Only a few residual exposures are still assessed using the standard approach.

1 *Cf. Note 33 to the consolidated financial statements pages 128 to 150.*
2 *Cf. pages 33 to 47.*

Risk management (continued)

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

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

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

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

Consolidated regulatory capital position

The table below sets out the analysis of consolidated regulatory capital.

Composition of consolidated regulatory capital

(in millions of euros)	**2009**	2008
Tier 1:		
Shareholders' funds of the parent company	**5,060**	5,228
Minority interests	**48**	48
Less: dividends to be paid to the parent company	**–**	–
Less: items treated differently for the purposes of capital adequacy	**(76)**	(68)
Less: goodwill capitalised and intangible assets	**(370)**	(375)
Less: goodwill on adjustments and impairment charges on internal ratings-based approaches	**(101)**	(123)
Less: surplus goodwill limited to 10% of capital	**(202)**	(174)
Total qualifying tier 1 capital	**4,359**	4,535
Tier 2:		
Reserves arising from revaluation of property and unrealised gains on available-for-sale securities	**112**	100
Perpetual subordinated loan and term subordinated loan	**181**	221
Less: goodwill on adjustments and impairment charges on internal ratings-based approaches	**(101)**	(123)
Less: surplus goodwill limited to 10% of capital	**(192)**	(174)
Total qualifying tier 2 capital	**–**	24
Total qualifying tier 3 capital	**–**	–
Investments in other banks and other financial institutions	**(4)**	(4)
Other deductions	**–**	–
Total capital	**4,355**	4,555
Total risk-weighted assets *(unaudited)*	**35,592**	47,691
Capital ratios: *(unaudited)*		
Total capital	**12.2%**	9.6%
Tier 1 capital	**12.2%**	9.5%

The above figures were computed in accordance with the EU Banking Consolidation Directive and the CB Prudential Standards. The group complied with the CB's capital adequacy requirements throughout 2009 and 2008.

In 2008, HSBC France granted a EUR 650 million subordinated loan to HSBC Bank plc and as a result, the 10 per cent of capital limit for such investments was exceeded; at 31 December 2009, EUR 202 million was deducted from Tier 1 capital (EUR 174 million at 31 December 2008) and EUR 192 million from Tier 2 capital (EUR 174 million at 31 December 2008).

Tier 1

Taking into account the impact of the deduction in respect of Expected Loss under Basel II and the deduction in respect of investments in banks, the net change in Tier 1 capital is primarily due to net profit for the year of EUR +348 million minus dividends paid of EUR 670 million and the change in the credit spread on issued debt of EUR +152 million.

Tier 2

Taking into account the impact of the deduction in respect of Expected Loss under Basel II and the deduction in respect of investments in banks in excess of 10% of capital, Tier 2 capital decreased by EUR 293 million, mainly as a result of the early redemption of a subordinated debt.

Risk-weighted assets

The reduction in risk-weighted assets is due to the decline in credit risk, primarily as a result of the adoption of the IRB Advanced approach for corporate exposures, as well as the decline in market risk.

Operational risk management

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

Identification and management of operational risks

Operational risk management is governed by a central team, the Operational Risk and Internal Control Department (DCIRO).

This department, which reports to the Deputy CEO in charge of risk management and permanent control, centralises work relating to operational risk management and supervision of permanent control system. Within this framework, a specific Operational Risk and Internal Control (ORIC) Committee has been set up for the entire HSBC France group to conduct regular reviews of business lines' operational risks, the results of controls carried out, progress made in action plans implemented to limit identified risks and operational losses.

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

As regards operational risk specifically, ORIC teams at the business lines and risk functions coordinate, within their entities, work to identify operational risks liable to affect their business. In conjunction with the business head concerned, they analyse and quantify the risk of loss in terms of frequency, severity and exposure – with exposure taking account of the effectiveness of existing procedures – using the grading system recommended by the HSBC Group. Action plans are drawn up for all risks identified by the system as significant, and progress made is monitored by ORIC teams.

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

- operational risk management is first and foremost the responsibility of managers by means of how they handle their operations;
- IT systems are used to identify and report operational risks and generate regular and suitable reports;
- identified risks for the entire scope are updated regularly, at least once a year, in order to identify any major changes;
- operational losses are collated and reported.

In 2009, the DCIRO initiated a new review of risk maps – covering both operational and non-operational risks – for each of the business lines and functions, in order to be able to attach each risk to a specific function and identify the first and second-tier controls to be carried out.

A summary of this work is sent to the Committees concerned: the business line/function and plenary ORIC Committees, the Risk Management Meeting and the HSBC France Audit Committee.

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

Risk management (continued)

Legal risks and litigation

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

– Prevention of legal and tax risks:

  The DAJF manages the Legal and Tax Risks Committee, which meets quarterly on situations likely to generate specific substantive legal and tax risks, and the Structured Transactions Committee, which reviews the legal, accounting, tax and financial risks connected with complex structured transactions. The DAJF is also involved in the New Products Examination and ORIC (Operational Risk and Internal Control) Committees, in the RMM (Risk Management Meeting) of the HSBC France group, and in due diligence procedures concerning market operations, structured transactions and any new acquisition (or disposal) of an entity by the HSBC France group.

  The DAJF is responsible for managing risks directly or indirectly connected with all contentious matters. It is also involved in handling large exposures at risk or doubtful debts, and monitors all other risks which may have legal or tax implications.

– Litigation:

  There is no litigation or arbitration proceeding likely to have a material impact on HSBC France's financial position, its activities and results, or consequently on the HSBC France group.

Business Continuity Plan

Business Continuity Plans to deal with the loss or temporary unavailability of a building have been drawn up for all essential business operations conducted by the HSBC France platform and the financial subsidiaries hosted on the group's central sites in the Paris region. A pre-equipped fall-back site for all sensitive operations has been set up in Lognes. It is tested on a regular basis.

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

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

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

A consultation is on process, both with the FBF (French Banking Federation) and internally, to define specific plans that would meet the public authorities' expectations for dealing with other major systemic risks that could affect business continuity, such as floods and pandemics. This effort resulted in specific business continuity/resumption plans being drawn up, including the possibility of remote working.

Lastly, a business security department set up in 2006, is responsible for crisis management and oversight of the HSBC France group's business continuity plans.

Fraud prevention

The Security Department manages a fraud prevention unit. The purpose of this unit is to provide all support that the business lines need to prevent fraud or to take appropriate measures to minimise the impact of identified fraud, both internal and external. The system, which operates 6 out of 7 days a week, centralises reporting of all cases of attempted fraud or fraud committed across the entire scope of HSBC France and the subsidiaries it hosts.

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

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

Dependency

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

Environmental risks

The Sustainability policy is described on pages 49 to 56 of this Annual Report.

Compliance risks

Compliance risk is the risk of judicial, administrative or disciplinary sanctions, financial loss or damage to reputation associated with failure to comply with provisions of law, regulation, professional rules or codes of conduct applicable to banking and financial activities.

Organisation of compliance control

Within the HSBC France group, the compliance risk control system is directed by the Compliance Department. Effective March 2006, all compliance personnel within the HSBC France group report hierarchically to the Compliance Department so as to ensure full independence of the compliance function from the operational activities, as required by regulation 97-02. The Compliance Department consists of six departments reporting to the Head of Compliance: five departments specialised by business line (Retail Banking; Global Banking and Markets; Asset Management; Private Banking; and Insurance) and a central compliance department responsible for ensuring that the system is internally consistent.

As part of its role of coordinating and leading the compliance control effort, the Compliance Department is responsible for:

- monitoring regulatory developments that will have an impact on the activities of the HSBC France group, jointly with the Legal and Tax Department;
- identifying the compliance risks associated with the activities conducted by HSBC France;
- preparing and updating the necessary procedures and instructions to achieve compliance in practice with legal and regulatory provisions;
- informing and training employees with regard to the compliance obligations arising from their activities and responsibilities;
- performing an advisory function for operating managers to assist them in meeting compliance obligations;
- organising and, in coordination with the internal control departments of the business lines and subsidiaries, carrying out the permanent controls of compliance;
- coordinating relations with regulatory authorities.

Identification and monitoring procedures for compliance risks

The Compliance Department draws among others on the monitoring performed by the Legal and Tax Department to follow legislative and regulatory changes and developments in case law that will have an impact on the HSBC France group, analyse the impact of such changes, and establish procedures for complying with them.

The analysis of compliance risks is documented in maps itemising the legal, regulatory and professional rules and the HSBC Group internal standards that apply to each business line or activity and the procedures and controls implemented to ensure compliance with them. Additional work was carried out in 2009 to harmonise mapping of the compliance risks associated with the HSBC France group's various business lines, as well as a review of the consistency of cross-functional risk assessment.

Non-compliance risks affecting the HSBC France group's activities concern the following areas in particular: efforts to combat money laundering, terrorist financing and corruption, compliance with codes of conduct relating to customer interests, protection of the integrity and transparency of financial markets, professional secrecy and the protection of personal data, business ethics and the prevention of conflicts of interest. Compliance risk mapping is updated at least every six months.

For compliance risks associated with new products and services and significant changes in existing products, a specific review procedure is in place. This procedure calls for due diligence to be performed systematically in advance of launch by the entities and control functions concerned, including the Compliance Department, to ensure that all risks occasioned by the new product or service are analysed and taken into account.

New products that meet certain criteria are also subject to prior approval by the Product Review Committee, which is chaired by the HSBC France Deputy CEO in charge of risk and permanent control, and for which the Compliance Department serves as the secretariat. The Compliance Department is responsible for ensuring that the products comply with both legal and regulatory requirements and Group standards and that the Committee's requests and decisions are taken into account before the products are launched.

Operational oversight of the compliance control system and follow-up on any identified discrepancies relies in the first instance on periodic and

Risk management (continued)

specific reporting procedures. Quarterly, the Local Compliance Officer (LCO) of each HSBC France group entity prepares a report on legal and regulatory compliance for the activities within the scope of his or her responsibility and sends this report to the Head of Compliance for the business line. This report is signed by the LCO and co-signed every six months by the Head of the entity. A consolidated report for the HSBC France group is prepared every quarter on the basis of these reports and is co-signed every six months by the Head of Compliance and the HSBC France CEO.

Any identified discrepancies in the implementation of compliance requirements are documented by the LCO of the entity concerned in an exception report that must be made up the Compliance line. The actions taken to remedy the anomaly are then monitored on a regular basis.

Furthermore, specific review committees composed of both Compliance representatives and operating managers review the functioning of the compliance control system and the main identified compliance risks. In implementation of the provisions of regulation 97-02 relating to Compliance control, a Compliance Committee was set up in April 2006 and is chaired by the HSBC France CEO and includes, in addition to the Head of Compliance and the other Compliance Department Heads, the Deputy CEO in charge of risk and permanent control, the Executive Committee responsible for the business lines and the Head of Legal and Tax Department.

The role of this committee is two-fold: to make decisions regarding the direction of the compliance control system, and to inform Senior Management as to how well the system is working, any discrepancies observed and corrective actions taken to address them.

Within each subsidiary subject to regulation 97-02, the Compliance Officer reports on the compliance control system to the local permanent control committee, which is chaired by the member of the executive body who has been designated as the subsidiary's permanent control officer. Lastly, there are specialised anti-money laundering committees in each business line, formed for the purpose of reviewing any matter pertaining to prevention of money laundering. The Compliance Department organises these committees and serves as secretariat for them.

Insurance and risk coverage

The HSBC Group in France is covered by the main global insurance programmes taken out by HSBC Holdings plc in London regarding the coverage of the major risks (fraud, professional liability, directors' and officers' liability).

As regards the specific insurance requirements of its operations and to comply with French regulations, HSBC France arranges local insurance programmes centrally, via its Insurance Department, on behalf of the HSBC Group in France. In particular, insurance is used to cover professional liability relating to regulated activities, public liability, banking risks and the fleet cars.

Damage to real-estate and other property, including IT hardware, and the business interruption are insured by a policy taken out in France. This local policy is linked to the global programme taken out by HSBC Holdings plc. Reinstatement value guarantees vary in accordance with types of buildings and activities.

Sums insured, retentions and excesses are:

– in line with insurance market condition, business areas, practice and legislation;
– based on the value of the assets and the potential impact on the balance sheets of HSBC France and HSBC Holdings plc.

The total amount of insurance premiums paid for 2009 represented 0.27 per cent of net operating income.

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

Broker, insurance and expert partners are selected in accordance with a strict selection and solvency supervision policy, established and controlled by HSBC Insurance Holdings plc.

Financial highlights*

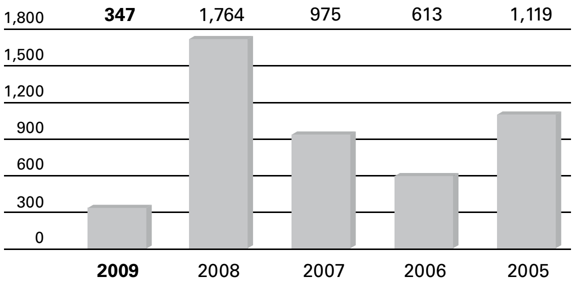
HSBC France group

(in millions of euros)	**2009**	2008	2007	2006	2005
Profit before tax	**406**	1,744	1,051	801	1,240
Profit attributable to shareholders	**347**	1,764	975	613	1,119
At year-end					
Shareholders' funds	**5,060**	5,228	5,064	5,406	5,325
Loans and advances to customers and banks	**80,485**	78,556	88,279	62,855	53,783
Customers accounts and deposits by banks	**90,373**	95,927	93,083	57,336	54,858
Total assets	**213,444**	266,025	198,627	132,847	128,100
Number of employees (full-time equivalents)	**10,350**	10,886	14,279	14,379	13,878
Capital ratios					
Total capital[1]	**12.2%**	9.6%	9.8%	9.6%	10.1%
Tier 1 capital[1]	**12.2%**	9.5%	8.8%	9.9%	9.5%
Cost efficiency ratio	**73.9%**	48.5%	64.3%	69.7%	63.4%

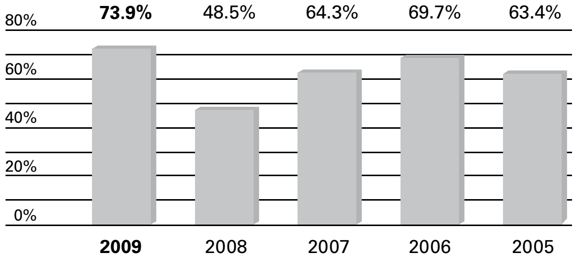
The financial highlights are influenced by changes in the group structure over the five years. The most significant changes are as follows:

- in 2005: disposals of the Dewaay group, Framlington, Netvalor and subsidiaries of CMSL. The gains before tax made on these disposals amounted to EUR 256 million and explain the high level of the 2005 profit;
- in 2007: disposal of the participation in HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV. Acquisition of 50.01 per cent of the share capital of Erisa and Erisa IARD and transfer of these two entities to HSBC Bank plc Paris Branch;
- in 2008: disposal by HSBC France of its seven regional banking subsidiaries;
- in 2009: disposal by HSBC France of its equity derivatives business to HSBC Bank plc Paris Branch.

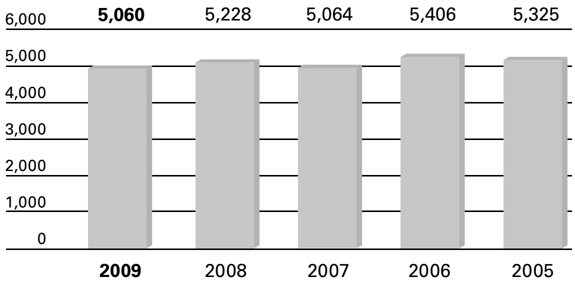
Profit attributable to Shareholders (in millions of euros)



Cost efficiency ratio



Shareholders' funds (in millions of euros)



Ratings

HSBC France is rated on its financial performance by three main agencies: Standard & Poor's, Moody's and Fitch.

	Standard & Poor's	Moody's	Fitch
Long-term rating	AA	Aa3	AA
Date of issue	19 June 2006	2 July 2008	18 December 2009
Outlook	Negative	Negative	Stable
Date of issue	19 December 2008	9 March 2009	18 December 2009
Short-term rating	A-1+	P-1	F1+

* *Published consolidated financial information – HSBC France legal perimeter. In accordance with IFRS as endorsed by the EU.*
1 *Capital ratios under Basel I until 2007 and under Basel II from 2008.*

Consolidated financial statements

Consolidated income statement for the year ended 31 December 2009

(in millions of euros)	*Notes*	**2009**	2008
Interest income		**1,945**	3,974
Interest expense		**(1,335)**	(4,164)
Net interest income		**610**	(190)
Fee income		**1,047**	1,087
Fee expense		**(306)**	(371)
Net fee income		**741**	716
Trading income		**985**	1,435
Net income from financial instruments designated at fair value		**(147)**	45
Gains less losses from financial investments		**17**	5
Dividend income		**10**	21
Other operating income		**25**	1,601
Total operating income before loan impairment (charges)/release and other credit risk provisions		**2,241**	3,633
Loan impairment charges and other credit risk provisions		**(178)**	(127)
Net operating income	*4*	**2,063**	3,506
Employee compensation and benefits	*5*	**(1,009)**	(1,042)
General and administrative expenses		**(578)**	(651)
Depreciation of property, plant and equipment	*18*	**(60)**	(57)
Amortisation of intangible assets and impairment of goodwill	*17*	**(10)**	(12)
Total operating expenses		**(1,657)**	(1,762)
Operating profit		**406**	1,744
Share of profit in associates and joint ventures		**–**	–
Profit before tax		**406**	1,744
Tax expense	*7*	**(52)**	22
Net profit of discontinued operations		**(6)**	–
Profit for the period		**348**	1,766
Profit attributable to shareholders		**347**	1,764
Profit attributable to minority interests		**1**	2

(in euros)			
Basic earnings per ordinary share	*9*	5.15	23.52
Diluted earnings per ordinary share	*9*	5.10	23.27
Dividend per ordinary share	*9*	9.94	–

Consolidated statement of recognised income and expense for the year ended 31 December 2009

(in millions of euros)	**31 December 2009**	31 December 2008
Profit for the period	**348**	1,766
Other comprehensive income		
Available-for-sale investments:		
– fair value gains/(losses) taken to equity	**107**	(248)
– fair value gains transferred to income statement on disposal	**(52)**	(160)
– amounts transferred to/(from) the income statement in respect of impairment losses	**32**	119
– income taxes	**(25)**	64
Cash flow hedges:		
– fair value gains/(losses) taken to equity	**126**	(19)
– fair value (gains)/losses transferred to income statement on disposal	**26**	18
– income taxes	**(52)**	–
Actuarial gains/(losses) on defined benefit plans	**(6)**	(2)
Exchange differences	**5**	(7)
Other comprehensive income for the period, net of tax	**161**	(235)
Total comprehensive income for the period	**509**	1,531
Total comprehensive income for the year attributable to:		
– shareholders of the parent company	**508**	1,529
– minority interests	**1**	2
	509	1,531

Consolidated financial statements (continued)

Consolidated balance sheet at 31 December 2009

ASSETS

(in millions of euros)	*Notes*	**2009**	2008
Cash and balances at central banks	32	**586**	2,077
Items in the course of collection from other banks	32	**1,079**	1,234
Trading assets	12	**61,529**	67,427
Financial assets designated at fair value		**595**	515
Derivatives	13	**55,957**	105,213
Loans and advances to banks	28	**30,705**	27,270
Loans and advances to customers	28	**49,780**	51,286
Financial investments	14	**5,148**	3,247
Interests in associates and joint ventures	16	**6**	6
Goodwill and intangible assets	17	**385**	390
Property, plant and equipment	18	**258**	548
Other assets	20	**461**	4,964
Deferred tax assets	23	**78**	77
Prepayments and accrued income		**1,277**	1,766
Assets classified as held for sale	20	**5,600**	5
TOTAL ASSETS		**213,444**	266,025

LIABILITIES AND EQUITY

(in millions of euros)	*Notes*	**2009**	2008
Liabilities			
Deposits by banks	28	**41,035**	42,136
Customer accounts	28	**49,338**	53,791
Items in the course of transmission to other banks	32	**959**	1,041
Trading liabilities	27	**35,154**	33,892
Financial liabilities designated at fair value	21	**3,881**	2,206
Derivatives	13	**55,608**	102,997
Debt securities in issue	28	**14,769**	20,351
Retirement benefit liabilities	5	**98**	101
Other liabilities	22	**857**	2,383
Current taxation		**13**	18
Accruals and deferred income		**1,224**	1,538
Provisions for liabilities and charges	24	**78**	85
Deferred tax liabilities	23	**–**	3
Subordinated liabilities	26	**166**	207
TOTAL LIABILITIES		**203,180**	260,749
Equity			
Called up share capital	31	**337**	337
Share premium account		**16**	16
Other reserves and retained earnings		**4,707**	4,875
TOTAL SHAREHOLDERS' EQUITY		**5,060**	5,228
Minority interests		**48**	48
TOTAL EQUITY		**5,108**	5,276
Liabilities classified as held for sale	22	**5,156**	–
TOTAL EQUITY AND LIABILITIES		**213,444**	266,025

Consolidated statement of changes in equity for the year ended 31 December 2009

	31 December 2009										
				Other reserves							
(in millions of euros)	**Called up share capital**	**Share premium**	**Retained earnings**	**Available-for-sale fair value reserve**	**Cash flow hedging reserve**	**Foreign exchange reserve**	**Share-based payment reserve**	**Associates and joint ventures**	**Total share-holders' equity**	**Minority interests**	**Total equity**
At 1 January 2009	**337**	**16**	**4,874**	**(23)**	**(118)**	**(7)**	**145**	**4**	**5,228**	**48**	**5,276**
Share capital issued, net of costs	–	–	–	–	–	–	–	–	–	–	–
Dividends to shareholders	–	–	**(670)**	–	–	–	–	–	**(670)**	–	**(670)**
Net impact of equity-settled share-based payments	–	–	–	–	–	–	**(24)**	–	**(24)**	–	**(24)**
Dividends to minority interests	–	–	–	–	–	–	–	–	–	–	–
Other movements	–	–	**21**	**(2)**	–	**(1)**	–	–	**18**	**(1)**	**17**
Total comprehensive income for the period	–	–	**341**	**62**	**100**	**5**	–	–	**508**	**1**	**509**
At 31 December 2009	**337**	**16**	**4,566**	**37**	**(18)**	**(3)**	**121**	**4**	**5,060**	**48**	**5,108**

	31 December 2008										
				Other reserves							
(in millions of euros)	Called up share capital	Share premium	Retained earnings	Available-for-sale fair value reserve	Cash flow hedging reserve	Foreign exchange reserve	Share-based payment reserve	Associates and joint ventures	Total share-holders' equity	Minority interests	Total equity
At 1 January 2008	380	1,191	3,278	211	(117)	–	117	4	5,064	31	5,095
Share capital issued, net of costs and re-purchased	(43)	(1,175)	(166)	–	–	–	–	–	(1,384)	17	(1,367)
Dividends to shareholders	–	–	–	–	–	–	–	–	–	–	–
Net impact of equity-settled share-based payments	–	–	–	–	–	–	28	–	28	–	28
Dividends to minority interests	–	–	–	–	–	–	–	–	–	(2)	(2)
Other movements	–	–	–	(9)	–	–	–	–	(9)	–	(9)
Total comprehensive income for the period	–	–	1,762	(225)	(1)	(7)	–	–	1,529	2	1,531
At 31 December 2008	337	16	4,874	(23)	(118)	(7)	145	4	5,228	48	5,276

Consolidated financial statements (continued)

Consolidated cash flow statement for the year ended 31 December 2009

(in millions of euros)	*Notes*	**2009**	2008
Cash flows from operating activities			
Profit before tax		**406**	1,744
of which profit before tax from regional banks held for sale		**–**	29
Net profit on discontinued operations		**(6)**	–
– non-cash items included in net profit	*32*	**183**	345
– change in operating assets	*32*	**(8,283)**	(7,009)
– change in operating liabilities	*32*	**(8,101)**	2,858
– change in assets/liabilities of disposal groups classified as held for sale		**(459)**	–
– elimination of exchange differences		**88**	(126)
– net (gain)/loss from investing activities		**(61)**	(1,829)
– share of profits in associates and joint ventures		**–**	–
– dividends received from associates		**–**	–
– tax paid		**(189)**	(19)
Net cash from operating activities		**(16,422)**	(4,036)
Cash flows (used in)/from investing activities			
Purchase of financial investments		**(3,159)**	(2,330)
Proceeds from the sale of financial investments		**1,253**	3,570
Purchase of property, plant and equipment		**(45)**	(63)
Proceeds from the sale of property, plant and equipment		**2**	102
Purchase of goodwill and intangible assets		**(5)**	(17)
Net cash outflow from acquisition of and increase in stake of subsidiaries		**–**	–
Net cash inflow from disposal of subsidiaries		**8**	1,434
Net cash outflow from acquisition of and increase in stake of associates		**–**	–
Proceeds from disposal of associates		**–**	–
Net cash (used in)/from investing activities		**(1,946)**	2,696
Cash flows (used in)/from financing activities			
Issue of ordinary share capital		**–**	16
Net purchases of own shares		**–**	(1,400)
Increase in non-equity minority interests		**–**	–
Subordinated loan capital issued		**–**	–
Subordinated loan capital repaid		**(40)**	(61)
Dividends paid to shareholders		**(670)**	–
Dividends paid to minority interests		**–**	–
Net cash (used in)/from financing activities		**(710)**	(1,445)
Net increase in cash and cash equivalents		**(19,073)**	(2,785)
Cash and cash equivalents at 1 January		**34,963**	38,211
Effect of exchange rate changes on cash and cash equivalents		**103**	(463)
Cash and cash equivalents at 31 December		**15,993**	34,963

Notes to the consolidated financial statements

Consolidated financial statements (continued)

1 Basis of preparation

a HSBC France has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union ("EU"). IFRS comprises accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2009, there were no unendorsed standards effective for the year ended 31 December 2009 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC France.

The consolidated financial statements of HSBC France are available upon request from the HSBC France registered office at 103, avenue des Champs-Elysées – 75419 Paris Cedex 08 or on the website www.hsbc.fr.

These consolidated financial statements were approved by the Board of Directors on 16 February 2010.

During the year ended 31 December 2009, HSBC France adopted the following significant amendments to standards and interpretations:

– on 1 January 2009, HSBC France adopted IFRS 8 "Operating Segments" (IFRS 8), which replaced IAS 14 "Segment reporting". IFRS 8 requires an entity to disclose information about its segments which enables users to evaluate the nature and financial effects of its business activities and the economic environments in which it operates. The HSBC France group's management reviews operating activity by customer group.

  IFRS 8 requires segment information to be reported using the same measure reported to the management for the purpose of making decisions about allocating resources to the segment and assessing its performance. Information provided to the management is on an IFRS basis;

– on 1 January 2009, HSBC adopted the revised IAS 1 "Presentation of Financial Statements" (IAS 1). The revised standard aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in HSBC France's consolidated financial statements. It does, however, result in certain presentational changes in HSBC France's primary financial statements, including:

  • the presentation of all items of income and expenditure in two financial statements, the "Income statement" and "Statement of comprehensive income",

  • the presentation of the "Statement of changes in equity" as a financial statement, which replaces the "Equity" Note on the financial statements, and

  • the adoption of revised titles for the financial statements;

– on 1 January 2009, HSBC adopted the amendment to IFRS 2 "Share-based Payment" – "Vesting Conditions and Cancellations". The amendment, which is applicable for annual periods beginning on or after 1 January 2009, clarifies that vesting conditions comprise only service conditions and performance conditions. It also specifies the accounting treatment for a failure to meet a non-vesting condition. The amendment has no significant effect on HSBC France's consolidated financial statements;

– on 1 January 2009, HSBC adopted a revised IAS 23 "Borrowing Costs". The revised standard eliminates the option of recognising borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of the revised standard has no significant effect on HSBC France's consolidated financial statements;

– HSBC France adopted IFRIC 13 "Customer Loyalty Programmes" ("IFRIC 13"). IFRIC 13 addresses how companies that grant their customers loyalty award credits (often called "points") when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the points. IFRIC 13 requires companies to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations to provide goods or services. The adoption of this interpretation has no significant effect on HSBC France's consolidated financial statements;

– HSBC France adopted the amendment to IFRS 7 "Financial Instruments: Disclosures". The amendment aims to improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. The adoption of the amendment has no significant effect on HSBC France's consolidated financial statements;

1 Basis of preparation *(continued)*

- HSBC France adopted the amendment to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of financial statements" named "Puttable Financial Instruments and Obligations Arising on Liquidation". The adoption of this amendment has no significant effect on HSBC France's consolidated financial statements;
- HSBC adopted IFRIC 15 "Agreements for the Construction of Real Estate"("IFRIC 15"). IFRIC 15 provides guidance on the recognition of revenue among real estate developers for sales of units. The adoption of IFRIC 15 has no significant effect on HSBC France's consolidated financial statements;
- HSBC France adopted the amendments to IFRS 1 and IAS 27 "Cost of an investment in a subsidiary, jointly controlled entity or associate". The adoption of this amendment has no significant effect on HSBC France's consolidated financial statements;
- HSBC France adopted IFRIC 12 "Service concession arrangements" and IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The adoption of those amendments have no significant effect on HSBC France's consolidated financial statements.

HSBC France has not used the option offered under IAS 39 amendment "Financial Instruments Recognition and Measurement" ("IAS 39") and IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") – "Reclassification of Financial Assets" ("Reclassification Amendment"). Indeed, the amendment to IAS 39 and to IFRS 7 "Reclassification of Financial Assets – Effective Date and Transition" which clarifies the effective date of the Reclassification Amendment, has no effect on the consolidated financial statements of HSBC France.

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

Acquisitions

Acquired subsidiaries are consolidated from the date on which control passes to HSBC France until the date on which this control ends. As allowed under IFRS 1, HSBC France has opted not to restate business combinations that took place before 1 January 2004, the date on which it adopted IFRS.

HSBC France's acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is recognised at fair value on the date on which HSBC France takes control, taking into account the costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities are recognised at fair value on the acquisition date. The difference between the acquisition cost and fair value of the portion of identifiable net assets attributable to HSBC France is recognised as goodwill if positive and immediately taken to income if negative.

Consolidation methods

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

- the direct or indirect ownership of a majority of the subsidiary's voting rights;
- the power to appoint, remove or gather a majority of members of the subsidiary's Board of Directors or equivalent governing bodies;
- the power to govern the financial and operating policies of the entity under a statute or an agreement.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity.

Jointly controlled companies are reported using the equity method. HSBC France has joint control over a company when, as part of a contractual agreement, strategic financial and operating decisions relating to the company's activity require the unanimous consent of all the venturers sharing control.

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

1 Basis of preparation *(continued)*

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

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

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

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

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

Eliminations of internal transactions

All transactions internal to the HSBC France group are eliminated on consolidation.

Share of the results and reserves of joint ventures and associates

The consolidated financial statements include the attributable share of the results and reserves of joint ventures and associates owed to HSBC France, based on financial statements updated not earlier than three months prior to 31 December.

c The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported. Management believes that HSBC France's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans and advances, goodwill impairment, the valuation of financial instruments, the impairment of available-for-sale financial assets and deferred tax assets.

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

d *Future accounting development*s

Standards and Interpretations issued by the IASB and endorsed by the EU

A revised IFRS 3 "Business Combinations" and an amended IAS 27 "Consolidated and Separate Financial Statements" were issued on 10 January 2008. The revisions to the standards apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual financial reporting period beginning on or after 1 July 2009. The main changes under the standards are that:

– acquisition-related costs are recognised as expenses in the income statement in the period they are incurred;

– equity interests held prior to control being obtained are remeasured to fair value at the time control is obtained, and any gain or loss is recognised in the income statement;

– changes in a parent's ownership interest in a subsidiary that do not result in a change of control are treated as transactions between equity holders and reported in equity; and,

– an option is available, on a transaction-by-transaction basis, to measure any non-controlling (previously referred to as minority) interests in the entity acquired either at fair value, or at the non-controlling interests' proportionate share of the net identifiable assets of the entity acquired.

The effect that the changes will have on HSBC France's consolidated financial statements will depend on the incidence and timing of business combinations occurring on or after 1 January 2010.

The IASB issued an amendment to IAS 39 "Eligible Hedged Items" on 31 July 2008, which is applicable for annual periods beginning on or after 1 July 2009. The amendment clarifies how the existing principles underlying hedge accounting should be applied. This amendment will have no effect on HSBC France's consolidated financial statements.

1 Basis of preparation *(continued)*

IFRIC 17 "Distributions of Non-cash Assets to Owners" ("IFRIC 17") was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 provides guidance on how distributions of assets other than cash as dividends to shareholders should be accounted for. Adoption of IFRIC 17 has no significant effect on HSBC France's consolidated financial statements.

An amendment to IFRIC 9 and IAS 39 "Embedded Derivatives" was issued on 12 March 2009 and is effective for annual periods ending on or after 30 June 2009. The amendment clarifies the accounting treatment of embedded derivatives for entities that make use of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and to IFRS 7 "Financial Instruments: Disclosures" – "Reclassification of Financial Assets" (the "Reclassification Amendment"). Adoption of the amendment has no significant effect on HSBC France's consolidated financial statements.

IFRIC 18 "Transfers of Assets from Customers" ("IFRIC 18") was issued on 29 January 2009 and is required to be applied prospectively to transfers of assets from customers received on or after 1 July 2009. IFRIC 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). HSBC France does not expect adoption of IFRIC 18 to have an effect on its consolidated financial statements.

Standards and Interpretations issued by the IASB but not endorsed by the EU

IFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 9 is required to be applied retrospectively. If the standard is adopted prior to 1 January 2012, an entity will be exempt from the requirement to restate prior period comparative information. IFRS 9 is subject to EU endorsement, the timing of which is uncertain. Accordingly, the group is unable to provide a date by which it plans to apply IFRS 9. The main changes to the requirements of IAS 39 are summarised below.

All financial assets that are currently in scope of IAS 39 will be classified and measured at either amortised cost or fair value through profit or loss. The available-for-sale and held-to-maturity categories will no longer exist.

Classification is based on an entity's business model for managing the financial assets at the date of initial application of the standard, and the contractual cash flow characteristics of the financial asset at inception of the contract. Reclassifications between the two categories are prohibited unless there is a change in the entity's business model, in which case they would be required.

A financial asset is measured at amortised cost if two criteria are met: i) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows; and ii) the contractual cash flows of the instrument are solely payments of principal and interest on the principal outstanding.

An entity is only permitted to designate a financial asset at fair value through profit or loss if doing so significantly reduces or eliminates an accounting mismatch. This designation is made on initial recognition and is irrevocable.

Financial instruments which contain embedded derivatives are to be classified in their entirety either at fair value or amortised cost depending on whether the contracts as a whole meet the relevant criteria under IFRS 9.

All equity financial assets are required to be measured at fair value through profit or loss unless an entity takes the option to designate the equity instrument that are not held for trading at fair value through other comprehensive income ("FVTOCI"). If this option is taken all changes in fair value are recognised in other comprehensive income with no recycling of gains or losses to the profit or loss. Dividend income would continue to be recognised in the income statement.

IFRS 9 is the first instalment in the IASB's planned phased replacement of IAS 39 with a less complex and improved standard for financial instruments. The next steps in the IASB's project will address the classification and measurement requirements for financial liabilities, the impairment for financial assets measured at amortised cost and hedge accounting. The IASB has indicated that it aims to finalise the replacement of IAS 39 by the end of 2010. In addition, the IASB is working with the US Financial Accounting

Consolidated financial statements (continued)

1 Basis of preparation *(continued)*

Standards Board ("FASB") to remove inconsistencies between US GAAP and IFRS in accounting for financial instruments. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's financial instruments project.

It is impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements. However, a preliminary study indicates that, subject to technical clarification and the development of industry interpretations,

– fewer financial assets are likely to be measured at fair value than at present, with the majority of the group's available-for-sale debt securities being classified and measured at amortised cost; and,

– the amounts of financial instruments currently measured at amortised cost that will move to a fair value measurement basis are likely to be small or insignificant.

The IASB issued "Improvements to IFRSs" on 16 April 2009, which comprises a collection of necessary, but not urgent, amendments to IFRSs. The amendments are primarily effective for annual periods beginning on or after 1 January 2010, with earlier application permitted. HSBC France does not expect adoption of the amendments to have a significant effect on the consolidated financial statements.

At 31 December 2009, a number of amendments to standards and interpretations, not yet effective for the group's consolidated financial statements, had been issued by the IASB but not endorsed by the EU. These amendments to standards and interpretations include amendments to IAS 24 "Related party transactions", IFRIC 14, IFRIC 16 and IFRIC 19.

2 Principal accounting policies

a *Interest income and expense*

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

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

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

b *Non-interest income*

Fee income

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

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

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

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

2 Principal accounting policies *(continued)*

Dividend income

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

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit and loss. Interest income and expense and dividend income arising on those financial instruments are also included, except for debt securities in issue and derivatives managed in conjunction with debt securities in issue. Interest on these instruments is shown in "Net interest income".

Trading income

Trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with related interest income, expense and dividends.

c *Segment reporting*

HSBC France mainly operates in France. HSBC France manages its business through the following customer groups: Personal Financial Services (including Insurance), Commercial Banking, Global Banking and Markets, Private Banking.

HSBC France's operations include a number of support services and head office functions. The costs of these functions are allocated to business lines, where it is appropriate, on a systematic and consistent basis.

The reporting of financial information by segment required by IFRS 8 is disclosed in Note 10.

d *Determination of fair value*

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, *i.e.* the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on current market transactions in the same instrument, or on valuation techniques including only data from observable markets.

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

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

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

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

e *Reclassification of financial assets*

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

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

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

- financial assets (except financial assets that would have met the definition of loans and receivables) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

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

f *Loans and advances to banks and customers*

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

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

g *Loan impairment*

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

Individually assessed loans

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

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

- HSBC France's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, HSBC France and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the amount and timing of expected receipts and recoveries;

– the realisable value of security (or other credit mitigants) and likelihood of successful repossession;

– the likely deduction of any costs involved in recovery of amounts outstanding;

– the ability of the borrower to obtain and make payments in the relevant foreign currency if loans are not in local currency; and,

– where available, the secondary market price for the debt.

Impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value, and the amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account.

Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit-risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

– historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);

– the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and,

– management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each portfolio.

Loan write-offs

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

Reversals of impairment

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

h *Trading assets and trading liabilities*

Treasury bills, debt securities, equity shares and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking are classified as held for trading. Such financial assets or financial liabilities are recognised on trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, their fair values are remeasured; all subsequent gains and losses from changes in the fair value of these assets and liabilities, together with related interest income and expense and dividends, are recognised in the income statement within "Trading income" as they arise.

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

i *Financial instruments designated at fair value*

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

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

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

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

The fair value designation, once made, is irrevocable. Designated financial assets and financial liabilities are recognised on trade date when HSBC France enters into contractual arrangements with counterparties to purchase or sell securities, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the income statement. Subsequently, the fair values are remeasured and, except for interest payable on debt securities in issue designated at fair value, gains and losses from changes therein are recognised in “Net income from financial instruments designated at fair value”.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are also included in “Net income from financial instruments designated at fair value”. Interest on these derivatives is also included in this line, except for interest on derivatives managed with debt securities in issue designated at fair value, which is included in net interest income. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities and loans and receivables that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions.

j *Financial investments*

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless designated at fair value (see Note 2 i) or classified as “held-to-maturity”. Financial investments are recognised on trade date, when the Group enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the transactions are sold or the borrowers repay their obligations.

HSBC France did not hold any “held-to-maturity” investments in 2008 or 2009.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity in the “Available-for-sale reserve” until the securities are either sold or impaired. On the sale of available-for-sale securities, gains or losses held within equity are recycled through the income statement and classified as “Gains less losses from financial investments”.

Interest income is recognised on such securities using the effective interest method, calculated over the asset’s expected life. Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are recognised as an adjustment to the effective interest rate. Dividends are recognised in the income statement when the right to receive payment has been established.

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment where an adverse impact on estimated future cash flows of the financial asset or group of assets can be reliably estimated.

If an available-for-sale financial asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement within “Loan impairment charges and other credit risk provisions” for debt instruments and within “Gains less losses from financial investments” for equity instruments.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement until the sale of this instrument.

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

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

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

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

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

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

l *Derivatives and hedge accounting*

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

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

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. Where derivatives are designated as hedges, HSBC France classifies them as derivatives as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"); or (iii) hedges of net investments in a foreign operation ("net investment hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

Following the HSBC Group policy, HSBC France is not using the "carve out" arrangements contained in the European regulation no. 2086/2004 in relation to the accounting for macro-hedging operations.

As required in IAS 39, HSBC France documents, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Therefore it is also required to measure, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective. Interest on designated qualifying hedges is included in "Net interest income".

Fair value hedge

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

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

Cash flow hedge

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

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

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

Net investment hedge

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

2 Principal accounting policies *(continued)*

Hedge effectiveness testing

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

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

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

Derivatives that do not qualify for hedge accounting

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

m *Derecognition of financial assets and liabilities*

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

n *Offsetting financial assets and financial liabilities*

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

o *Associates and joint ventures*

Investments in associates and interests in joint ventures are initially stated at cost, including attributable goodwill, and adjusted thereafter for the post-acquisition change in HSBC France's share of net assets.

Unrealised gains on transactions between HSBC France and its associates and jointly controlled entities are eliminated to the extent of HSBC France's interest in the associate or joint venture. Unrealised losses are also eliminated to the extent of HSBC France's interest in the associate or joint venture unless the transaction provides evidence of an impairment of the asset transferred.

p *Goodwill and intangible assets*

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

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

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

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

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

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

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

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

Intangible assets that have a finite useful life (between 3 and 5 years) are stated at cost less amortisation and accumulated impairment losses and are amortised over their useful lives. Estimated useful life is the lower of legal duration and expected economic life.

q *Property, plant and equipment*

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

– land is not depreciated;

– acquisition-related expenses on buildings are expensed in the year in which they occur, as are preliminary costs;

– depreciation of buildings is calculated on a straight-line basis over their estimated useful lives which are generally between 25 and 75 years.

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

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

r *Finance and operating leases*

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

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

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

s *Income tax*

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

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

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

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

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised directly in equity. From 1 January 2005, deferred tax relating to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

t *Pension and other post-retirement benefits*

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

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

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

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

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

Consolidated financial statements (continued)

2 Principal accounting policies *(continued)*

u *Equity compensation plans*

Share-based payments are payments based on shares issued by HSBC Holdings plc. HSBC France employees benefit from the following advantages:

– until 2005, HSBC Holdings plc had awarded share options on HSBC Holdings plc shares;

– in 2006, HSBC France implemented a share plan on HSBC Holdings plc shares;

– employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Share options plans

The compensation expense to be spread on a straight-line basis over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any non-market vesting conditions such as option lapses. An option may lapse if, for example, an employee ceases to be employed by HSBC France before the end of the vesting period. Estimates of such future employee departures are taken into account when accruing the cost during the service period.

Share plans

This expense is spread on a straight-line basis over the vesting period with a balancing entry in a reserve account. The expense value takes into account hypotheses regarding employee departures and performance conditions for the part of the shares subject to such conditions.

Employee share ownership plan

Employees can subscribe to HSBC Holdings plc shares with a discount and without any vesting period. This advantage is expensed immediately as employee compensation and benefits. The five-year lock-in period is not taken into account in the consideration of the expense.

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

v *Foreign currencies*

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

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

2 Principal accounting policies *(continued)*

w *Provisions*

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

x *Debt securities in issue and subordinated liabilities*

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

y *Share capital*

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

z *Cash and cash equivalents*

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

aa *Non-current assets held for sale*

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

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

A sale is highly probable if:

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

When the group classifies an asset or disposal group as held for sale it is measured at the lower of its carrying amount and fair value less costs to sell.

3 Business combination and disposal of subsidiaries

Sale of HSBC Financial Products (France) activity

In the second quarter of 2009, the Management of HSBC France and HSBC Financial Products (France) announced the sale of the activity of HSBC Financial Products (France) to HSBC Bank plc Paris Branch. This sale was realized on 20 November. As at 31 December 2009, in the balance sheet still remain assets which are to be transferred to HSBC Bank plc during the first half of 2010. Accordingly, as required by IFRS 5, those operations are reclassified as "Assets classified as held for sale" and "Liabilities classified as held for sale".

Consolidated financial statements (continued)

3 Business combination and disposal of subsidiaries *(continued)*

As at 31 December 2009, the total of HSBC Financial Products (France) balance sheet amounts to EUR 6.6 billion, in which assets to be transferred for EUR 5.3 billion and liabilities to be transferred for EUR 5.2 billion.

The results of HSBC Financial Products (France) for the second half of 2009 is presented separately under the line item "Net profit of discontinued operations".

Sale of the regional banking subsidiaries in 2008

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

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

4 Net operating income

Net operating income for the year ended 31 December 2009 amounts to EUR 2,063 million and includes income, expense, gains and losses as follows:

(in millions of euros)	**2009**	2008
Income		
Fees earned on financial assets not held for trading nor designated at fair value and not included in their effective interest rates	**633**	658
Fees earned on trust and other fiduciary activities where HSBC France holds or invests assets on behalf of its customers	**275**	348
Income from listed investments[1]	**1,750**	1,741
Income from unlisted investments[1]	**147**	214
Expense		
Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value	**(1,241)**	(4,109)
Fees payable on financial assets or liabilities not held for trading nor designated at fair value and not included in their effective interest rates	**(249)**	(260)
Gains/(losses)		
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**2**	1,555
– gain on disposal of regional banking subsidiaries	**–**	1,527
– other[2]	**2**	28
Gains/(losses) on financial investments	**65**	124
– equity securities	**58**	140
– debt securities	**7**	(16)
Impairment of available for sale equity shares	**(48)**	(119)
Net impairment losses on		
– loans and advances	**(178)**	(127)
– available-for-sale financial investments: debt securities	**–**	–

1 *Dividends and interest.*
2 *Including gain on sale of the Algerian Branch to HSBC Bank Middle East Ltd for EUR 8 million in 2009.*

5 Employee compensation and benefits

(in millions of euros)	**2009**	2008
Wages and salaries	**684**	758
Social security costs	**264**	252
Post-employment benefits	**61**	32
	1,009	1,042

The French government announced in late 2009 its intention to introduce one-off taxes in respect of certain bonuses payable by banks and banking groups. The tax, a liability of the employer, is to be levied at 50 per cent on bonuses, whether in cash or shares, awarded in a certain period and over a threshold amount. Our current best estimate of these taxes is EUR 24 million. The liability for these taxes will be recognised in 2010 once the enabling legislation has been enacted and the taxes will be payable in 2010.

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

	2009	2008
Personal Financial Services and Commercial Banking	**5,238**	5,386
Global Banking and Markets	**1,503**	1,654
Asset Management	**596**	583
Private Banking	**303**	329
Support Functions and Others	**3,037**	3,275
Total	**10,677**	11,227

a *Post-employment benefit plans*

Since 2008, provisions for employee benefits have been covering commitments relating to end-of-career bonuses and long-service awards and commitments relating to supplementary pension schemes and CATS.

In 2008, HSBC France signed two agreements which provide:

- the transfer to APICIL of the ARCCO-AGIRC commitments (excluding the banking complementary pension);
- the constitution of a new defined contribution healthcare scheme. With this regard, HSBC France paid an exceptional amount which cancelled any further obligation for HSBC France relating to the financing of the healthcare schemes.

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

In 2009, HSBC France signed a new agreement about long-service awards and long service award bonuses, commitments relatings to end-of-career bonuses and long-service awards have been adjusted accordingly.

The CATS agreement on early retirement ended in 2009. The provisions relating to this agreement have been released.

Consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

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

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2009, and the 2010 periodic costs, were:

(in %)	*Discount rate*	*Expected rate of return on plan assets*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pension*	*Rate of pay increase*	*Mortality rate*
At 31.12.2009						
France	**5.5**	**–**[1]	**2**	**2**	**3**	**–**[2]
At 31.12.2008						
France	5.75	–[1]	2	2.5	3	–[2]

1 *Expected rate on equities. However expected rate of return on bonds was 4 per cent for 2009 and 4.5 per cent for 2008.*
2 *HSBC France uses "mortality tables" TV88-90 for retirement compensation and long-service awards and TGH/TGF05 for pension obligation.*

HSBC France determines discount rates in consultation with its actuary based upon the current average yield of high quality (AA rated) debt instruments, with maturities consistent with that of the pension obligation. The expected rate of return on plan assets is determined in consultation with HSBC's actuaries, based on historical market returns, adjusted for additional factors such as the current rate of inflation and interest rates.

c *Defined benefit pension plans*

Value recognised in the balance sheet

(in millions of euros)	**2009** ***HSBC France Pension Plan***	2008 *HSBC France Pension Plan*
Equities	**9**	8
Bonds	**20**	20
Property	**–**	–
Other	**17**	14
Fair value of plan assets	**46**	42
Present value of funded obligations	**(29)**	(23)
Present value of unfunded obligations	**(121)**	(128)
Defined benefit obligation	**(150)**	(151)
Unrecognised past service cost	**6**	8
Net liability	**(98)**	(101)

5 Employee compensation and benefits *(continued)*

Changes in the present value of the defined benefit obligation

	2009	2008
(in millions of euros)	***HSBC France Pension Plan***	*HSBC France Pension Plan*
At 1 January	**151**	235
Current service cost	**3**	4
Interest cost	**9**	10
Contributions by employees	**–**	–
Actuarial (gains)/losses	**4**	(2)
Benefits paid	**(18)**	(15)
Past service cost – vested immediately	**(4)**	–
Past service cost – unvested benefits	**–**	8
Acquisitions	**–**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	(50)
Exchange and other movements	**5**	(39)
At 31 December [1]	**150**	151

1 *Of which non post-employment benefit obligation for EUR 7.5 million (2008: EUR 12 million) and post-employment benefit obligation for EUR 142.5 million (2008: EUR 139 million).*

Changes in the fair value of plan assets

	2009	2008
(in millions of euros)	***HSBC France Pension Plan***	*HSBC France Pension Plan*
At 1 January	**42**	93
Expected return	**2**	4
Contributions by the group	**–**	–
Contributions by employees	**3**	–
Actuarial gain	**1**	(6)
Benefits paid	**(4)**	(17)
Acquisitions	**–**	–
(Gains)/losses on settlements	**–**	(22)
Exchange and other movements	**2**	(10)
At 31 December	**46**	42

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

	2009	2008
(in millions of euros)	***HSBC France Pension Plan***	*HSBC France Pension Plan*
Current service cost	**3**	4
Interest cost	**9**	10
Expected return on plan assets	**(2)**	(4)
Past service cost	**(4)**	–
(Gains)/losses on curtailments	**–**	–
(Gains)/losses on settlements	**–**	(27)
Total net expense	**6**	(17)

In 2009, total net actuarial losses included in the statement of recognised income and expenses were EUR 6 million in respect of defined benefit pension plans (2008: no net actuarial gain was recognised).

Consolidated financial statements (continued)

5 Employee compensation and benefits *(continued)*

d *Post-employment healthcare benefits plans*

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

Changes in the present value of the defined benefit obligation

(in millions of euros)	**2009**	2008
At 1 January	–	36
Current service costs	–	1
Interest costs	–	1
Contributions by employees	–	–
Actuarial (gains)/losses	–	–
Benefits paid	–	(18)
Past service cost:	–	–
– vested immediately	–	–
– unvested benefits	–	–
Acquisitions	–	–
(Gains)/losses on curtailments	–	–
(Gains)/losses on settlements	–	(20)
Exchange and other movements	–	–
At 31 December	**–**	**–**

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

(in millions of euros)	**2009**	2008
Current service cost	–	1
Interest cost	–	1
Expected return on plan assets	–	–
Past service cost	–	–
(Gains)/losses on curtailments	–	–
(Gains)/losses on settlements	–	(20)
Total expense	**–**	(18)

e *Retirement benefit liabilities*

(in millions of euros)	**2009**	2008
Net liability on defined pension plans (Note 5 c)	**(98)**	(101)
Net liability on post-employment healthcare benefits plans (Note 5 d)	–	–
Total	**(98)**	(101)

6 Share-based payments

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

In 2005, the HSBC Group significantly revised its share option and share policy to its employees. The new rules of share option and share plans were approved by its Annual General Meeting held in May 2005. These rules include a French sub-plan (Schedule 3 of the general rule) which complies with the legal and tax regulations applicable in France. Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of specific legal and tax regulations).

6 Share-based payments *(continued)*

Share Options Plan

The Group Share Options Plan was a long-term incentive plan available to certain group employees between 2000 and 2005. The aim of the plan was to align the interests of those higher performing employees to the creation of shareholder value. Options were granted at market value and are normally exercisable between the third and tenth anniversaries of the date when granted, subject to vesting conditions.

Share Options without performance conditions[1]

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

	2009		2008	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Outstanding at 1 January	**46,661**		48,744	
Granted in the year	**–**		–	
Exercised in the year	**(721)**	**6.09**	(1,304)	7.41
Transferred in the year	**–**		–	
Expired in the year	**(241)**	**7.16**	(779)	8.23
Outstanding at 31 December	**45,699**		46,661	

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

Share Options with performance conditions

Share options with performance conditions were granted in 2003 and 2004 under the Rules of The HSBC Share Plan to senior executives in France.

	2009		2008	
	Number (000)	***Weighted average exercise price (in GBP)***	*Number (000)*	*Weighted average exercise price (in GBP)*
Granted in the year	**–**		–	
Forfeited in the year	**(9)**		(226)	
Outstanding at 31 December	**215**		224	

In 2008, EUR 2.2 million was charged to the income statement in respect of amortisation of 2005 plans. This amortisation is based on the fair value of the share-based payments transactions when contracted and runs over the three-year vesting period. These plans were completely amortised in 2008.

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

Group share plan

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

The shares can be:

– "Performance shares" submitted to performance conditions;

– "Achievement shares" and "Restricted shares" without performance conditions.

Consolidated financial statements (continued)

6 Share-based payments *(continued)*

"Performance shares"

	2009	2008
	Number (000)	*Number (000)*
Outstanding at 1 January	**239**	239
Shares issued	**35**	–
Granted in the year	**–**	–
Exercised in the year	**–**	–
Transferred in the year	**(50)**	–
Expired in the year	**(224)**	–
Outstanding at 31 December	**–**	239

Vesting of performance shares, allocated in 2006 of 2005 plan is subject to a three-year vesting period and to performance conditions that have changed over the period.

These performance shares were subject to two performance conditions relating to HSBC Group:

– 50% of the award were subject to the level of the Total Shareholder Return, measure against a comparator group of 28 major banks;

– 50% of the award were subject to growth of the earnings per ordinary share published by the Group relating to the 3 years of the vesting period.

The first condition was partially achieved and allowed the vesting of 39.46% of the first half of the awards. The second condition failed, the second half of the award was not vested.

"Achievement shares" and "Restricted shares"

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

	2009	2008
	Number (000)	*Number (000)*
Outstanding at 1 January	**6,020**	4,899
Granted in the year	**4,409**	3,144
Exercised in the year	**(2,492)**	(1,847)
Transferred in the year	**–**	(103)
Expired in the year	**(50)**	(72)
Shares issued	**1,165**	–
Outstanding at 31 December	**9,052**	6,020

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

In 2009, EUR 24 million were charged to the income statement in respect of amortisation of the 2006, 2007 and 2008 plans (2008: EUR 36.1 million). This amortisation runs over a vesting period, *i.e.* a three-year period for the Performance shares and a two-year period for the Achievement and Restricted shares.

Employee share offering

Each year since 1993, HSBC has made an employee share offering open to current employees. In 2008, Employees of the HSBC France group took up a total of 2,761,005 HSBC Holdings plc shares, representing a total capital amount of EUR 22.9 million.

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

In 2009, HSBC has not made an employee share offering.

7 Tax expense

(in millions of euros)	**2009**	2008
Current tax	**153**	4
Deferred tax	**(101)**	(26)
Tax expense	**52**	(22)
Effective tax rate (per cent)	**13.2**	n/a

Analysis of overall tax charges

	2009		2008	
(in millions of euros)	***Amount***	*%*	*Amount*	*%*
Taxation at French corporate tax rate	**136**	**34.43**	598	34.43
Impact of overseas profits in principal locations taxed at different rates	**–**	**–**	(1)	(0.1)
Operations taxed at reduced tax rate in France	**(7)**	**(1.9)**	(530)	(30.5)
Other items including result for tax Group integration	**(77)**	**(19.3)**	(90)	(5.2)
Overall tax charge	**52**	**13.2**	(22)	n/a

In 2009 and 2008, HSBC France and its subsidiary undertakings in France were subject to French corporation tax at 34.43 per cent for Short Term (ST) and 1.72[1] per cent for Long Term (LT). The rates used for deferred taxes are based on 2010 tax rates.

1 *Except property company securities and securities with cost price higher than EUR 22.8 million but lower than 5 per cent of capital and securities from FCPR and SCR.*

8 Dividends paid in 2009 and 2008

	2009		2008	
(in millions of euros)	***EUR per share***	***Amount***	*EUR per share*	*Amount*
First interim dividend for current year	**3.70**	**249.5**	–	–
Second interim dividend for current year	**6.24**	**420.8**	–	–
		670.3		–

Dividends related to 2009

On 29 July 2009, the Board of Directors approved a first interim dividend of EUR 3,70 per share. This dividend was paid with respect to the 67,437,820 shares in issue on that date, making a total payment of EUR 249.5 million.

On 18 November 2009, the Board of Directors approved a second interim dividend of EUR 6.24 per share. This dividend was paid with respect to the 67,437,820 shares in issue on that date, making a total payment of EUR 420.8 million.

On 16 February 2010, the Board of Directors proposed to the Annual General Meeting, to be held on 11 May 2010, not to distribute any further dividend in respect of the 2009 results.

Dividends related to 2008

On 28 May 2009, the Annual General Meeting, decided not to distribute any dividend in respect of the 2008 results.

Consolidated financial statements (continued)

9 Earnings and dividends per share

(in euros)	**31 December 2009**	31 December 2008
Basic earnings per share	**5.15**	23.52
Diluted earnings per share	**5.10**	23.27
Dividend per share	**9.94**	–

Basic earnings per ordinary share were calculated by dividing the earnings of EUR 347 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 67,437,820 (full year 2008: earnings of EUR 1,764 million and 75,020,854 shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 68,042,070 (full year 2008: 75,808,731 shares).

10 Segment analysis

The HSBC France group provides a comprehensive range of banking and related financial services to its customers. The products and services offered to customers are organised by customer groups and global businesses:

- Personal Financial Services (including Insurance activity) offers a broad range of products and services to meet the personal banking, consumer finance and wealth management needs of individual customers. Personal banking products typically include current and savings accounts, mortgages and personal loans, credit cards, insurance, wealth management and local and international payment services.
- Commercial Banking product offerings include the provision of financing services, payments and cash management, international trade finance, treasury and capital markets, insurance, wealth management and investment banking services.
- Global Banking and Markets provides tailored financial solutions to major government, corporate and institutional clients worldwide. The client-focused business lines deliver a full range of banking capabilities including investment banking and financing solutions; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; global asset management services and principal investment activities.
- Private Banking provides a range of services to meet the banking, investment and wealth advisory needs of high net worth individuals.

The “Other” segment includes the fair value of own debt under fair value option for EUR 145 million (2008: impacts of the disposal of the seven regional banking subsidiaries).

HSBC France’s operations include a number of support services and head office functions. The costs of these functions are allocated to business lines, where it is appropriate, on a systematic and consistent basis.

Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the group management.

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

10 Segment analysis *(continued)*

Profit/(loss) for the year

(in millions of euros)	*Personal Financial Services*	*Com-mercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
	Year ended 31 December 2009						
Interest income	**886**	**526**	**1,070**	**31**	**(112)**	**–**	**2,401**
Interest expense	**(140)**	**(148)**	**(772)**	**(11)**	**1**	**(277)**	**(1,347)**
Net interest income	**746**	**378**	**298**	**20**	**(111)**	**(277)**	**1,054**
Other operating income	**(43)**	**213**	**1,056**	**48**	**(130)**	**277**	**1,421**
Total operating income	**703**	**591**	**1,354**	**68**	**(241)**	**–**	**2,475**
Loan impairment charges and other credit risk provisions	**(31)**	**(102)**	**(44)**	**–**	**–**	**–**	**(177)**
Net operating income	**672**	**489**	**1,310**	**68**	**(241)**	**–**	**2,298**
Total operating expenses	**(632)**	**(415)**	**(638)**	**(66)**	**1**	**–**	**(1,750)**
Operating profit	**40**	**74**	**672**	**2**	**(240)**	**–**	**548**
Share of profit in associates and joint ventures	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit before tax	**40**	**74**	**672**	**2**	**(240)**	**–**	**548**
Tax expense	**16**	**(4)**	**(210)**	**3**	**68**	**–**	**(127)**
Profit for the year - France	**56**	**70**	**462**	**5**	**(172)**	**–**	**421**
Perimeter differences[1]							**(101)**
Group Reporting differences							**28**
Profit for the year – Legal							**348**

1 *Mainly Insurance.*

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

	Year ended 31 December 2008						
(in millions of euros)	*Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Interest income	904	637	2,874	57	(23)	–	4,449
Interest expense	(170)	(273)	(2,606)	(38)	6	(1,093)	(4,174)
Net interest income	734	364	268	19	(17)	(1,093)	275
Other operating income	20	285	531	63	1,532	1,093	3,524
Total operating income	754	649	799	82	1,515	–	3,799
Loan impairment charges and other credit risk provisions	(6)	(100)	(26)	5	–	–	(127)
Net operating income	748	549	773	87	1,515	–	3,672
Total operating expenses	(657)	(427)	(601)	(80)	(54)	–	(1,819)
Operating profit	91	122	172	7	1,461	–	1,853
Share of profit in associates and joint ventures	–	–	–	–	–	–	–
Profit before tax	91	122	172	7	1,461	–	1,853
Tax expense	16	9	(18)	3	(16)	–	(6)
Profit for the year - France	107	131	154	10	1,445	–	1,847
Perimeter differences[1]							(80)
Group Reporting differences							(1)
Profit for the year – Legal							1,766

1 *Mainly Insurance.*

10 Segment analysis *(continued)*

Other information about the profit/(loss) for the year

(in millions of euros)	*Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Year ended 31 December 2009							
Net operating income	**672**	**489**	**1,310**	**68**	**(241)**	**–**	**2,298**
– external	**707**	**551**	**731**	**42**	**(189)**	**–**	**1,842**
– inter-segment	**(35)**	**(62)**	**579**	**26**	**(52)**	**–**	**456**
Profit before tax includes the following significant non-cash items	**40**	**74**	**672**	**2**	**(240)**	**–**	**548**
– depreciation, amortisation and impairment	**(31)**	**(22)**	**(15)**	**(2)**	**–**	**–**	**(71)**
– loan impairment losses gross of recoveries and other credit risk provisions	**(31)**	**(104)**	**(44)**	**–**	**–**	**–**	**(180)**
– impairment of financial investments	**–**	**–**	**(28)**	**(1)**	**(19)**	**–**	**(48)**
Year ended 31 December 2008							
Net operating income	748	549	773	87	1,515	–	3,672
– external	1,003	693	(21)	40	292	–	2,007
– inter-segment	(255)	(144)	794	47	1,223	–	1,665
Profit before tax includes the following significant non-cash items	91	122	172	7	1,461	–	1,853
– depreciation, amortisation and impairment	(30)	(21)	(19)	(1)	–	–	(70)
– loan impairment losses gross of recoveries and other credit risk provisions	2	(112)	(27)	5	–	–	(131)
– impairment of financial investments	–	–	(84)	(2)	(33)	–	(119)

Consolidated financial statements (continued)

10 Segment analysis *(continued)*

Balance sheet information

(in millions of euros)	*Personal Financial Services*	*Commercial Banking*	*Global Banking and Markets*	*Private Banking*	*Other*	*Inter Segment*	*Total*
Year ended 31 December 2009							
Loans and advances to customers (net)	**13,638**	**7,851**	**27,586**	**706**	**–**	**–**	**49,780**
Investment in associates and joint ventures	**–**	**–**	**6**	**–**	**–**	**–**	**6**
Total assets	**14,845**	**9,040**	**193,937**	**1,225**	**329**	**(5,931)**	**213,444**
Customer accounts	**10,184**	**7,719**	**30,981**	**455**	**–**	**–**	**49,338**
Total liabilities	**14,845**	**9,040**	**193,937**	**1,225**	**329**	**(5,931)**	**213,444**
Capital expenditure incurred[1]	**24**	**15**	**8**	**–**	**–**	**–**	**47**
Year ended 31 December 2008							
Loans and advances to customers (net)	14,033	8,929	27,570	754	–	–	51,286
Investment in associates and joint ventures	–	–	6	–	–	–	6
Total assets	14,975	11,238	249,396	1,502	338	(11,424)	266,025
Customer accounts	9,781	8,445	34,891	673	–	–	53,791
Total liabilities	14,975	11,238	249,396	1,502	338	(11,424)	266,025
Capital expenditure incurred[1]	31	19	31	–	–	–	81

1 *Expenditure incurred on property, plant and equipment and other intangible assets. Excludes assets acquired as part of business combination and goodwill.*

11 Analysis of financial assets and liabilities by measurement basis

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

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

(in millions of euros)	At 31 December 2009 *Held for Trading*	*Designated at fair value*	*Loans and receivables*	*Available-for-sale securities*	*Financial assets and liabilities at amortised cost*	*Derivatives designated as fair value hedging instruments*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial assets								
Cash and balances at central banks	–	–	–	–	**586**	–	–	**586**
Items in the course of collection from other banks	–	–	–	–	**1,079**	–	–	**1,079**
Trading assets	**61,529**	–	–	–	–	–	–	**61,529**
Financial assets designated at fair value	–	**595**	–	–	–	–	–	**595**
Derivatives	**55,329**	–	–	–	–	**44**	**584**	**55,957**
Loans and advances to banks	–	–	**30,705**	–	–	–	–	**30,705**
Loans and advances to customers	–	–	**49,780**	–	–	–	–	**49,780**
Financial investments	–	–	–	**5,148**	–	–	–	**5,148**
Other assets	–	–	–	–	**315**	–	–	**315**
Accrued income	–	–	–	–	**1,277**	–	–	**1,277**
Total financial assets	**116,858**	**595**	**80,485**	**5,148**	**3,257**	**44**	**584**	**206,971**
Assets classified as held for sale								**5,600**
Total non-financial assets								**873**
Total assets								**213,444**
Financial liabilities								
Deposits by banks	–	–	–	–	**41,035**	–		**41,035**
Customer accounts	–	–	–	–	**49,338**	–		**49,338**
Items in the course of transmission to other banks	–	–	–	–	**959**	–		**959**
Trading liabilities	**35,154**	–	–	–	–	–		**35,154**
Financial liabilities designated at fair value	–	**3,881**	–	–	–	–	–	**3,881**
Derivatives	**55,055**	–	–	–	–	**72**	**481**	**55,608**
Debt securities in issue	–	–	–	–	**14,769**	–	–	**14,769**
Other liabilities (including current tax)	–	–	–	–	**857**	–	–	**857**
Subordinated liabilities	–	–	–	–	**166**	–	–	**166**
Accruals	–	–	–	–	**1,224**	–	–	**1,224**
Total financial liabilities	**90,209**	**3,881**	–	–	**108,348**	**72**	**481**	**202,991**
Liabilities classified as held for sale								**5,156**
Total non-financial liabilities								**5,297**
Total liabilities								**213,444**

Consolidated financial statements (continued)

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

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

12 Trading assets

(in millions of euros)	2009	2008
Trading assets:		
– which may be repledged or resold by counterparties	**35,392**	34,844
– not subject to repledge or resale by counterparties	**26,137**	32,583
	61,529	67,427

(in millions of euros)	2009	2008
Treasury and other eligible bills	**38,125**	40,885
Debt securities	**10,415**	9,357
Equity securities[1]	**–**	2,052
Loans and advances to banks	**10,734**	11,668
Loans and advances to customers	**2,255**	3,465
	61,529	67,427

1 *Transfer of the HSBC Financial Products (France) activity to HSBC Bank plc Paris Branch in 2009.*

13 Derivatives

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

	At 31 December 2009					
	Assets			***Liabilities***		
(in millions of euros)	***Trading***	***Hedging***	***Total***	***Trading***	***Hedging***	***Total***
Exchange rate	**3,956**	**–**	**3,956**	**(3,956)**	**–**	**(3,956)**
Interest rate	**61,785**	**628**	**62,413**	**(62,422)**	**(553)**	**(62,975)**
Equities	**988**	**–**	**988**	**–**	**–**	**–**
Credit derivatives	**4**	**–**	**4**	**(81)**	**–**	**(81)**
Commodity and other	**–**	**–**	**–**	**–**	**–**	**–**
Gross total fair values	**66,733**	**628**	**67,361**	**(66,459)**	**(553)**	**(67,012)**
Netting			**(11,404)**			**11,404**
Total			**55,957**			**(55,608)**

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

Consolidated financial statements (continued)

13 Derivatives *(continued)*

a *Use of derivatives*

HSBC France transacts derivatives for three primary purposes: to create risk management solutions for clients, for proprietary trading purposes and to manage and hedge the group's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. All other derivative instruments are classified as held-for-trading. The held-for-trading classification includes two types of derivative instruments: those used in sales and trading activities, and those instruments that are used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting. The second held-for-trading category includes derivatives managed in conjunction with financial instruments designated at fair value. These activities are described more fully below.

The group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary. When entering into derivative transactions, the group employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

b *Trading derivatives*

Most of the group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market-making, positioning and arbitrage activities. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

Ineffective hedging derivatives were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in "Trading income", except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in "Net income from financial instruments designated at fair value".

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

(in millions of euros)	**2009**	2008
Exchange rate	**81,557**	128,134
Interest rate	**3,570,489**	4,082,848
Equities [1]	**53,665**	125,454
Credit derivatives	**949**	1,162
Commodity and other	**–**	–
Total	**3,706,660**	4,337,598

1 *Mainly derivatives of HSBC Financial Products (France) to be transferred.*

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

13 Derivatives *(continued)*

The contract amount of credit derivatives of EUR 949 million (2008: EUR 1,162 million) above consists of protection bought for EUR 949 million (2008: EUR 1,156 million) and without protection sold for EUR 0 million (2008: EUR 6 million).

Derivatives valued using models with unobservable inputs

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

(in millions of euros)	**2009**	2008
Unamortised balance at 1 January	**47**	42
Deferral on new transactions	**58**	106
Recognised in the income statement during the period:		
– amortisation	**(33)**	(37)
– subsequent to observability	**(1)**	(50)
– maturity or termination	**(11)**	(14)
– FX movements and other [1]	**(52)**	–
Unamortised balance at 31 December	**8**	47

1 *Including transfer of the day one reserve of HSBC Financial Products (France).*

c *Hedging instruments*

HSBC France uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges. These are described under the relevant headings below.

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

	At 31 December 2009		At 31 December 2008	
(in millions of euros)	***Cash flow hedge***	***Fair value hedge***	*Cash flow hedge*	*Fair value hedge*
Exchange rate contracts	**–**	**500**	–	540
Interest rate contracts	**55,252**	**4,496**	49,248	2,591
Equity contracts	**–**	**–**	–	–

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

Fair value hedges

The group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in income. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2009, were assets of EUR 44 million and liabilities of EUR 72 million (31 December 2008, assets of EUR 30 million and liabilities of EUR 67 million).

Consolidated financial statements (continued)

13 Derivatives *(continued)*

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

(in millions of euros)	**2009**	2008
– on hedging instruments	**24**	(20)
– on hedged items attributable to the hedged risk	**(21)**	21

The amount reported in the income statement in respect of the ineffectiveness of fair value hedges was a gain of EUR 3.1 million for the year ended 31 December 2009 (a gain of EUR 1.3 million for the year ended 31 December 2008).

Cash flow hedges

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

At 31 December 2009, the fair values of outstanding derivatives designated as cash flow hedges of forecast transactions were assets of EUR 584 million and liabilities of EUR 481 million (at 31 December 2008, assets of EUR 460 million and liabilities of EUR 561 million).

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

	At 31 December 2009			
(in millions of euros)	***3 months or less***	***More than 3 months but less than 1 year***	***Less than 5 years but more than 1 year***	***More than 5 years***
Cash inflows from assets	**8,434**	**14,619**	**5,261**	**27**
Cash outflows from liabilities	**(10,519)**	**(16,897)**	**(3,036)**	**(1,009)**
Net cash inflows/(outflows)	**(2,085)**	**(2,278)**	**2,225**	**(982)**

	At 31 December 2008			
(in millions of euros)	*3 months or less*	*More than 3 months but less than 1 year*	*Less than 5 years but more than 1 year*	*More than 5 years*
Cash inflows from assets	12,304	5,920	6,389	–
Cash outflows from liabilities	(7,052)	(7,561)	(6,144)	(1,713)
Net cash inflows/(outflows)	5,252	(1,641)	245	(1,713)

Reconciliation of movements in the cash flow hedge reserve

(in millions of euros)	**2009**	2008
At 1 January	**(118)**	(117)
Amounts recognised directly in equity during the year	**126**	(19)
Amounts removed from equity and included in the income statement for the year	**26**	18
Deferred taxation	**(52)**	–
At 31 December	**(18)**	(118)

The amount reported in the income statement in respect of the ineffectiveness of cash flow hedges was a loss of EUR 0.1 million (at 31 December 2008: a loss of EUR 3.7 million).

13 Derivatives *(continued)*

d *Embedded derivatives: Home purchase savings*

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

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

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

(ii) the derivatives under consideration are borrowing and savings options embedded in contracts in force on the accounts-closing date:

- the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only),
- the model calculates the fair value of options to use acquired borrowing rights;

(iii) the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2009, derivatives embedded in home purchase savings products represented a liability of EUR 7 million (at 31 December 2008: a liability of EUR 11 million).

14 Financial investments

(in millions of euros)	**2009**	2008
Financial investments:		
– which may be pledged or resold by counterparties	**3,220**	530
– not subject to repledge or resale by counterparties	**1,928**	2,717
	5,148	3,247

	2009		2008	
(in millions of euros)	***Book value***	***Fair value***	*Book value*	*Fair value*
Treasury and other eligible bills	**2,012**	**2,012**	309	309
– available-for-sale	**2,012**	**2,012**	309	309
– held-to-maturity	**–**	**–**	–	–
Debt securities	**2,477**	**2,477**	2,090	2,090
– available-for-sale [1]	**2,477**	**2,477**	2,090	2,090
– held-to-maturity	**–**	**–**	–	–
Equity securities	**659**	**659**	848	848
– available-for-sale	**659**	**659**	848	848
Total financial investments	**5,148**	**5,148**	3,247	3,247

1 *Including EUR 238 million of underlying assets in the dynamic money market funds (2008: EUR 272 million) and EUR 311 million of assets held by the funds consolidated since 2008 (2008: EUR 410 million).*

Consolidated financial statements (continued)

15 Securitisations and other structured transactions

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial assets concerned:

(i) full derecognition occurs when the group transfers its contractual right to receive cash flows from the financial assets and substantially, all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks. In addition, full derecognition occurs where the contractual rights to receive the cash flows of the financial assets are retained but a contractual obligation to pay the cash flows to one or more recipients is assumed;

(ii) partial derecognition occurs when the group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the group's continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are (i) debt securities held by counterparties as collateral under repurchase agreements or (ii) equity securities lent under securities lending agreements. The following table analyses the carrying amount of financial assets as at 31 December that did not qualify for derecognition during the year and their associated financial liabilities:

	2009		2008	
(in millions of euros)	***Carrying amount of assets***	***Carrying amount of associated liabilities***	*Carrying amount of assets*	*Carrying amount of associated liabilities*
Nature of transaction				
Repurchase agreements	**38,612**	**38,612**	37,640	37,640
Securities lending agreements	**–**	**–**	–	–
Total	**38,612**	**38,612**	37,640	37,640

16 Interests in associates and joint ventures

a *Principal associates*

At 31 December 2009, the HSBC France group only consolidated through equivalency a limited number of entities that had no significant impact on the consolidated financial statements.

b *Interests in joint ventures*

	At 31 December 2009		
	Principal activity	***Interest in equity***	***Capital***
HCM Holdings Ltd	**Holding**	**51%**	**–**

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

Although HSBC France owns more than 50 per cent of the equity capital of HCM Holdings Ltd, the agreement with the other shareholder includes restrictions on the rights of HSBC France as the majority shareholder and indicates joint control over HCM Holdings Ltd by the two shareholders.

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

Summarised aggregate financial information on joint ventures

(Figures from the local financial statements: 100%)

(in millions of euros)	2009	2008
Current assets	**1**	1
Non-current assets	**–**	–
Current liabilities	**–**	–
Non current liabilities	**1**	1
Income	**–**	–
Expenses	**–**	–

17 Goodwill and intangible assets

"Goodwill and intangible assets" includes goodwill arising on business combinations and other intangible assets.

a *Goodwill*

(in millions of euros)	2009	2008
Cost		
At 1 January	**375**	429
Additions	**–**	–
Disposals		(57)
Exchange translation differences		3
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**375**	375
Accumulated impairment losses		
At 1 January	**(32)**	(32)
Disposals	**–**	–
Impairment losses recognised in profit or loss	**–**	–
Changes in scope of consolidation and other changes	**–**	–
At 31 December	**(32)**	(32)
Net book value at 31 December	**343**	343

During 2009, no goodwill impairment was recognised (2008: nil). Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of cash-generating units ("CGUs") determined based on a value-in-use calculation. That calculation uses cash flow estimates based on management's cash flow projections, extrapolated in perpetuity using a nominal long-term growth rate based on current market assessments of GDP and inflation. Cash flows are extrapolated in perpetuity due to the long-term perspective within the group of the business units making up the CGUs. The discount rate used is based on the cost of capital the group allocates to investments within which the CGU operates.

The cost of capital assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of capital percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk-free and a premium or discount to reflect the inherent risk of the business being evaluated. These variables are established on the basis of management judgement and current market assessments of economic variables.

The review of goodwill impairment represents management's best estimates of the factors. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects. The process of identifying and evaluating goodwill impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used.

Consolidated financial statements (continued)

17 Goodwill and intangible assets *(continued)*

b *Other intangible assets*

The analysis of intangible assets movements is as follows:

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2009	**142**	**58**	**35**	**235**
Additions	**1**	**4**	**–**	**5**
Disposals	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**(3)**	**(1)**	**(4)**
At 31 December 2009	**143**	**59**	**34**	**236**
Accumulated impairment losses				
At 1 January 2009	**(141)**	**(37)**	**(10)**	**(188)**
Charge for the year [1]	**(2)**	**(8)**	**–**	**(10)**
Disposals	**–**	**–**	**–**	**–**
Impairment losses	**–**	**–**	**–**	**–**
Reversal of impairment losses	**–**	**–**	**–**	**–**
Exchange translation differences	**–**	**–**	**–**	**–**
Changes in scope of consolidation and other changes	**–**	**3**	**1**	**4**
At 31 December 2009	**(143)**	**(42)**	**(9)**	**(194)**
Net book value at 31 December 2009	**–**	**17**	**25**	**42**

1 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

(in millions of euros)	*Internally generated software*	*Purchased software*	*Other*	*Total*
Cost				
At 1 January 2008	140	53	38	231
Additions	2	10	6	18
Disposals	–	–	(1)	(1)
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	(5)	(8)	(13)
At 31 December 2008	142	58	35	235
Accumulated impairment losses				
At 1 January 2008	(137)	(31)	(10)	(178)
Charge for the year [1]	(4)	(8)	–	(12)
Disposals	–	–	–	–
Impairment losses	–	–	–	–
Reversal of impairment losses	–	–	–	–
Exchange translation differences	–	–	–	–
Changes in scope of consolidation and other changes	–	2	–	2
At 31 December 2008	(141)	(37)	(10)	(188)
Net book value at 31 December 2008	1	21	25	47

1 *The amortisation charge for the year is recognised within the income statement under "Amortisation of intangible assets and impairment of goodwill".*

17 Goodwill and intangible assets *(continued)*

c *Goodwill and intangible assets*

(in millions of euros)	**2009**	2008
Cost		
Goodwill – net book value (see Note 17 a)	**343**	343
Other intangible assets – net book value (see Note 17 b)	**42**	47
	385	390

18 Property, plant and equipment

a *Property, plant and equipment*

(in millions of euros)	***Freehold land and buildings***	***Equipment, fixtures and fittings***	***Total***
Cost or fair value			
At 1 January 2009	**397**	**312**	**709**
Additions at cost	**2**	**43**	**45**
Fair value adjustments	**–**	**–**	**–**
Disposals	**(1)**	**(1)**	**(2)**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**(269)**	**(54)**	**(323)**
At 31 December 2009	**129**	**300**	**429**
Accumulated depreciation			
At 1 January 2009	**(30)**	**(131)**	**(161)**
Depreciation charge for the year[2]	**(10)**	**(51)**	**(60)**
Disposals	**–**	**1**	**1**
Exchange translation differences	**–**	**–**	**–**
Changes in scope of consolidation and other changes[1]	**19**	**31**	**49**
At 31 December 2009	**(21)**	**(150)**	**(171)**
Net book value at 31 December 2009	**108**	**150**	**258**

1 *Includes amounts transferred to "non-current assets held for sale", see Note 20.*
2 *Including impairment on property: EUR 2.5 million.*

18 Property, plant and equipment *(continued)*

(in millions of euros)	*Freehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
Cost or fair value			
At 1 January 2008	458	326	784
Additions at cost	2	61	63
Fair value adjustments	–	–	–
Disposals	(3)	(5)	(8)
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes[1]	(60)	(70)	(130)
At 31 December 2008	397	312	709
Accumulated depreciation			
At 1 January 2008	(30)	(115)	(145)
Depreciation charge for the year[2]	(9)	(48)	(57)
Disposals	1	4	5
Exchange translation differences	–	–	–
Changes in scope of consolidation and other changes[1]	8	28	36
At 31 December 2008	(30)	(131)	(161)
Net book value at 31 December 2008	367	181	548

1 *Of which related to the sale of the regional banking subsidiaries for net book value of EUR 93 million.*
2 *Including impairment on property: EUR 1.5 million.*

b *Investment properties*

At 31 December 2009 and 31 December 2008, the HSBC France group did not own investment properties.

c *Property, plant and equipment*

(in millions of euros)	**2009**	2008
Property, plant and equipment goodwill – net book value (see Note 18 a)	**258**	548
Investment properties – net book value (see Note 18 b)	**–**	–
	258	548

19 Investments

Consolidated companies	Country	Consolidation method*	Main line of business	HSBC France group interest % 2009	% 2008
Retail and Commercial Banking					
Retail and Commercial Banking					
COPARI	France	FC	Holding company	**100.0**	100.0
Financière d'Uzès	France	EM	Financial company	**34.0**	34.0
HSBC Factoring (France) (ex-Elysées Factor)	France	FC	Financial company	**100.0**	100.0
SARL Neuilly Valeurs	France	FC	Investment company	**100.0**	100.0
SCI Hervet Mathurins	France	FC	Holding company	**100.0**	100.0
SCI Neuilly Vichy [1]	France	FC	Holding company	–	100.0
SAPC Ufipro Recouvrement	France	FC	Bank	**100.0**	100.0
Union pour la Gestion et les Transactions (UGT)	France	FC	Service company	**100.0**	100.0
Vernet Expansion	France	FC	Investment company	**100.0**	100.0
Global Banking and Markets					
Beau Soleil Limited Partnership	Hong Kong	FC	Financial company	**85.0**	85.0
CCF Charterhouse GmbH	Germany	FC	Financial company	**100.0**	100.0
CCF Charterhouse GmbH & Co Asset Leasing KG	Germany	FC	Financial company	**100.0**	100.0
DEM 10	France	FC	Financial company	**100.0**	100.0
DEM 9	France	FC	Financial company	**100.0**	100.0
DEMPAR 1	France	FC	Financial company	**100.0**	100.0
DEMPAR 2	France	FC	Financial company	**100.0**	100.0
DEMPAR 4	France	FC	Financial company	**100.0**	100.0
Elysées GmbH	Germany	FC	Financial company	**100.0**	100.0
FCPE Aéro Parts Multi [4]	France	FC	Financial company	–	100.0
FDM 1	France	FC	Financial company	**100.0**	100.0
FDM 2	France	FC	Financial company	**100.0**	100.0
FDM 3	France	FC	Financial company	**100.0**	100.0
FDM 4	France	FC	Financial company	**100.0**	100.0
FDM 5	France	FC	Financial company	**100.0**	100.0
FDM 6	France	FC	Financial company	**100.0**	100.0
FDM 7	France	FC	Financial company	**100.0**	100.0
FDM 8	France	FC	Financial company	**100.0**	100.0
FDM 9	France	FC	Financial company	**100.0**	100.0
FDM 10	France	FC	Financial company	**100.0**	100.0
Finanpar 2	France	FC	Financial company	**100.0**	100.0
Finanpar 5	France	FC	Financial company	**100.0**	100.0
Finanpar 6	France	FC	Financial company	**100.0**	100.0
Finanpar 7	France	FC	Financial company	**100.0**	100.0
Finely [2]	France	FC	Financial company	–	100.0
Foncière Elysées	France	FC	Holding company	**100.0**	100.0
France Titrisation [3]	France	EM	Service company	–	33.3
HSBC Covered Bonds (France) (ex-Hervet Participations)	France	FC	Financial company	**100.0**	100.0
HSBC Financial Products (France)	France	FC	Financial company	**100.0**	100.0
HSBC Leasing (Belgium)	Belgium	FC	Financial company	**100.0**	100.0
HSBC Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC Middle East Leasing Partnership	Dubai	FC	Financial company	**85.0**	85.0
HSBC Real Estate Leasing (France)	France	FC	Financial company	**100.0**	100.0
HSBC REIM (France)	France	FC	Service company	**100.0**	100.0
HSBC Securities (France)	France	FC	Financial company	**100.0**	100.0
HSBC Securities Services (France)	France	FC	Financial company	**100.0**	100.0
Immobilière Bauchard	France	FC	Holding company	**100.0**	100.0
Neuilly Saint-Paul [1]	France	FC	Investment company	–	100.0
Realimo Negociations	France	FC	Service company	**100.0**	100.0

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

1 *Merger.*

2 *Liquidation.*

3 *Disposal.*

4 *Deconsolidation.*

Consolidated financial statements (continued)

19 Investments *(continued)*

Consolidated companies	*Country*	*Consolidation method**	*Main line of business*	HSBC France group interest % **2009**	% 2008
SAF Baiyun	France	FC	Financial company	**100.0**	100.0
SAF Baobab	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang san	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi'er	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang shi liu	France	FC	Financial company	**100.0**	–
SAF Chang jiang shi wu	France	FC	Financial company	**100.0**	–
SAF Chang jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Chang jiang yi	France	FC	Financial company	**100.0**	100.0
SAF Guangzhou	France	FC	Financial company	**100.0**	100.0
SAF Palissandre	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang ba	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang er	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang jiu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang liu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang qi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang san	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang shiyi	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang wu	France	FC	Financial company	**100.0**	100.0
SAF Zhu jiang yi	France	FC	Financial company	**100.0**	100.0
Saussaies Haussmann[1]	France	FC	Holding company	–	100.0
Société Financière et Mobilière (SFM)	France	FC	Financial company	**100.0**	100.0
Société Immobilière Malesherbes-Anjou	France	FC	Holding company	**100.0**	100.0
Sopingest	France	FC	Financial company	**100.0**	100.0
Thasosfin	France	FC	Financial company	**100.0**	100.0
Asset Management					
HSBC Global Asset Management (Switzerland) AG	Suisse	EM	Financial company	**50.0**	–
CCF & Partners Asset Management Ltd	United Kingdom	FC	Financial company	**100.0**	100.0
Global Marco High Risk[4]	France	FC	Financial company	–	89.7
Halbis Capital Management (France)	France	FC	Asset management	**100.0**	100.0
HCM Holdings Ltd	United Kingdom	Joint control	Financial company	**51.0**	51.0
HSBC Duoblig (ex-HSBC Dynamic Cash)	France	FC	Financial company	**81.8**	55.7
HSBC Eotop	France	FC	Financial company	**96.4**	78.8
HSBC Epargne Entreprise (France)	France	FC	Financial company	**100.0**	100.0
HSBC Global Asset Management (France) (ex-HSBC Investments (France))	France	FC	Asset management	**100.0**	100.0
HSBC Global Asset Management FCP (France) (ex-HSBC Investments FCP (France))[1]	France	FC	Financial company	–	100.0
HSBC Horizon 2034-2036[4]	France	FC	Financial company	–	59.3
HSBC Multimanager World Equity[4]	France	FC	Financial company	–	99.7
Isère 2010	France	FC	Financial company	**95.0**	76.3
Sinopia AM Luxembourg[2]	Luxembourg	FC	Asset management	–	100.0
Sinopia Asset Management	France	FC	Financial company	**100.0**	100.0

* *FC: Full consolidation – EM: Equity Method.*
1 *Merger.*
2 *Liquidation.*
4 *Deconsolidation.*

19 Investments *(continued)*

Consolidated companies	Country	Consolidation method*	Main line of business	HSBC France group interest % 2009	% 2008
Sinopia Asset Management (Asia Pacific) Ltd	Hong Kong	FC	Asset management	**100.0**	100.0
Sinopia Asset Management (UK) Ltd	United Kingdom	FC	Service company	**100.0**	100.0
Sinopia Danube 2015[4]	France	FC	Financial company	–	74.9
Sinopia Financial Services	France	FC	Financial company	**100.0**	100.0
Sinopia Global Equities[4]	France	FC	Financial company	–	57.7
Sinopia Société de Gestion	France	FC	Service company	**100.0**	100.0
Sinopia TRS 1	France	FC	Financial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	FC	Financial company	**60.0**	60.0
Private Banking					
Byron Equilibre	France	FC	Insurance broker	**99.9**	99.9
Delosfin SA	France	FC	Investment company	**100.0**	100.0
Eurofin Assurances	France	FC	Insurance broker	**99.9**	99.9
Eurofin Capital Partners (ECP)	France	FC	Investment company	**100.0**	100.0
HSBC Private Bank France	France	FC	Bank	**100.0**	100.0
HSBC Private Wealth Managers (ex-Louvre Gestion)	France	FC	Financial company	**100.0**	100.0
HSBC Republic Assurance SARL[1]	France	FC	Insurance broker	–	100.0
LGI	Luxembourg	FC	Wealth management	**100.0**	100.0
Octogone Immobilier	France	FC	Holding company	**100.0**	100.0
Others					
Charterhouse Management Services Limited (CMSL)	United Kingdom	FC	Investment company	**100.0**	100.0
Elysées Forêts	France	FC	Service company	**75.3**	75.3
Elysées Formation	France	FC	Service company	**100.0**	100.0
Enership	France	FC	Investment company	**100.0**	100.0
Excofina	France	FC	Investment company	**100.0**	100.0
FinanCités	France	EM	Capital Risk company	**21.4**	25.0
Forepar	France	FC	Financial company	**100.0**	100.0
HSBC PP 1	France	FC	Financial company	**100.0**	100.0
Nobel	France	FC	Investment company	**100.0**	100.0
Serdac	Switzerland	FC	Investment company	**100.0**	100.0
SGEFF	France	FC	Service company	**100.0**	100.0
Société Française et Suisse (SFS)	France	FC	Investment company	**100.0**	100.0
Value Fund 2	France	EM	Financial company	**45.4**	45.4

* *FC: Full consolidation – EM: Equity Method.*
1 *Merger.*
4 *Deconsolidation.*

Additions	*Year*
HSBC Duoblig (ex-HSBC Dynamic Cash)	2008
HSBC Eotop	2008
SAF Zhu jiang ba	2008
SAF Zhu jiang er	2008
SAF Zhu jiang jiu	2008
SAF Zhu jiang liu	2008
SAF Zhu jiang qi	2008
SAF Zhu jiang san	2008
SAF Zhu jiang shi	2008

Additions	*Year*
SAF Zhu jiang shiyi	2008
SAF Zhu jiang wu	2008
SAF Zhu jiang yi	2008
Sinopia Global Equities	2008
SAF chang jiang shi liu	2009
SAF chang jiang shi wu	2009
HSBC Global Asset Management (Switzerland) AG	2009

Consolidated financial statements (continued)

19 Investments *(continued)*

Mergers:

Merger of HSBC Global Asset Management FCP (France) (ex HSBC Investments FCP (France)) with HSBC Global Asset Management (France)

Merger of HSBC Republic Assurance SARL with HSBC Private Bank France

Merger of Neuilly Saint-Paul with Société Française et Suisse

Merger of Saussaies Haussmann with Foncière Elysées

Merger of SCI Neuilly Vichy with HSBC France

Deconsolidations:

FCPE Aéro Parts Multi

Global Marco Hight Risk

HSBC Horizon 2034-2036

HSBC Multimanager World Equity

Sinopia Danube 2015

Sinopia Global Equities

Disposals or liquidations:

Finely

France Titrisation

Sinopia AM Luxembourg

20 Other assets and non-current assets held for sale

a *Other assets*

(in millions of euros)	**2009**	2008
Current taxation recoverable	**144**	112
Other accounts	**317**	4,852
	461	4,964

In 2008, the derivative margin account for exchange trade contract was classified in "Other assets" for an amount of EUR 3,744 million. This amount has been reclassified in "Trading assets" in 2009.

b *Non-currents assets held for sale*

(in millions of euros)	**2009**	2008
Assets held by HSBC Financial Products (France)	**5,323**	–
Property, plant and equipment	**278**	5
Investment properties	**–**	–
Total assets classified as held for sale	**5,600**	5

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

In December 2009, HSBC France entered into a contract for the sale of 103 avenue des Champs Elysées and 15 rue Vernet for a combined consideration of EUR 400 million. Under the terms of the arrangement, HSBC France will lease the buildings back for a period of 9 years. The carrying amount of the buildings included in assets held for sale at 31 December 2009 was EUR 257 million. The transaction was completed in February 2010.

Neither a gain nor loss was recognised on reclassifying assets as held for sale during the year.

21 Financial liabilities designated at fair value

(in millions of euros)	**2009**	2008
Deposits by banks	**–**	–
Customer accounts	**183**	204
Debt securities in issue	**3,689**	1,996
Subordinated liabilities	**9**	6
	3,881	2,206

The difference between the carrying amount of financial liabilities designated at fair value and the contractual amount at maturity at 31 December 2009 was EUR 284 million (at 31 December 2008, EUR 81 million).

At 31 December 2009, the accumulated amount of the change in fair value attributable to changes in credit risk for the group was EUR -97 million (at 31 December 2008, EUR +48 million).

In 2009, the amount reported in the income statement in respect of HSBC France's own credit spread was a loss of EUR 145 million (2008: a gain of EUR 45 million).

In January 2009, an issue was made as part of the HSBC France EMTN programme for a total amount of EUR 1.5 billion.

Consolidated financial statements (continued)

22 Other liabilities and non-current liabilities held for sale

a *Other liabilities*

(in millions of euros)	**2009**	2008
Amounts due to investors in funds consolidated by the group	**65**	90
Share-based payments	**–**	–
Obligations under finance leases	**–**	–
Other liabilities	**792**	2,293
	857	2,383

In 2008, the derivative margin account for exchange trade contract was classified in "Other liabilities" for an amount of EUR 742 million. This amount has been reclassified in "Trading liabilities" in 2009.

b *Non-current liabilities held for sale*

(in millions of euros)	**2009**	2008
Liabilities held by HSBC Financial Products (France)	**5,156**	–
Total liabilities classified as held for sale	**5,156**	–

23 Deferred taxation

	2009			2008		
(in millions of euros)	***Deferred tax asset***	***Deferred tax liability***	***Total***	*Deferred tax asset*	*Deferred tax liability*	*Total*
Temporary differences:						
– retirement benefits	**22**	**–**	**(22)**	23	1	(22)
– assets leased	**1**	**–**	**(1)**	(2)	–	2
– revaluation of property	**(47)**	**–**	**47**	(48)	–	48
– other temporary differences	**102**	**–**	**(102)**	104	2	(102)
	78	**–**	**(78)**	77	3	(74)

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

(in millions of euros)	**2009**	2008
Cash flow hedge	**10**	63
Available-for-sale reserve	**(13)**	13
Actuarial losses	**(1)**	(2)

24 Provisions for liabilities and charges

(in millions of euros)	***Provisions***
At 1 January 2009	**85**
Additional provisions/increase in provisions	**24**
Provisions utilised	**(21)**
Amounts reversed	**(22)**
Exchange, changes in scope of consolidation and other movements	**12**
At 31 December 2009	**78**

24 Provisions for liabilities and charges *(continued)*

(in millions of euros)	*Provisions*
At 1 January 2008	78
Additional provisions/increase in provisions	56
Provisions utilised	(12)
Amounts reversed	(20)
Exchange, changes in scope of consolidation and other movements[1]	(17)
At 31 December 2008	85

1 *Of which impact of the disposal of the regional banking subsidiaries for EUR 17 million.*

At 31 December 2009, "Provisions for liabilities and charges" include a provision of EUR 24.4 million booked in 2008 (31 December 2008: EUR 28.4 million) relating to the 2010 Development Plan.

25 Sale and repurchase and settlement accounts

(in millions of euros)	**At 31 December 2009**	At 31 December 2008
Assets		
Loans and advances to customers include:		
– assets under sale and repurchase agreements	**17,390**	16,911
– settlement accounts	**428**	393
Loans and advances to banks include:		
– assets under sale and repurchase agreements	**27,951**	28,477
– settlement accounts	**3,839**	1,591

(in millions of euros)	**At 31 December 2009**	At 31 December 2008
Liabilities		
Customer accounts include:		
– liabilities under sale and repurchase agreements	**24,442**	24,757
– settlement accounts	**1,383**	818
Deposits by banks include:		
– liabilities under sale and repurchase agreements	**25,392**	29,155
– settlement accounts	**2,472**	681

26 Subordinated liabilities

	Book value	
(in millions of euros)	**2009**	2008
Subordinated liabilities:		
– at amortised cost	**166**	207
– designated at fair value	**9**	7
	175	214

26 Subordinated liabilities *(continued)*

Subordinated borrowings issued by HSBC France:

(in millions of euros)		Book value 2009	2008
EUR150m [1]	Floating rate notes maturing 2014	**150**	150
EUR15m	Floating rate notes maturing 2015	**9**	7
JPY5bn [2]	Undated subordinated variable rate notes	**–**	40
	Other subordinated variable rate notes	**16**	17
		175	214

1 *Debt issued to HSBC Bank plc.*
2 *Early redemption in 2009.*

27 Trading liabilities

(in millions of euros)	2009	2008
Other liabilities – short positions	**24,490**	22,179
Deposits by banks	**7,495**	7,572
Customer accounts	**1,465**	2,601
Debt securities in issue	**1,704**	1,540
Total	**35,154**	33,892

In 2009, the amount reported in the income statement in respect of HSBC France's own credit spread in the debt securities in issue was a loss of EUR 87.1 million (2008: a profit of EUR 119.9 million).

28 Fair value of financial instruments

Control framework

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk taker. To this end, ultimate responsibility for the determination of fair values lies with Finance, which reports functionally to the Group Chief Financial Officer. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is used. In less liquid markets, direct observation of a traded price may not be possible. In these circumstances, the group will source alternative market information to validate the financial instrument's fair value. Greater weight will be given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and,
- the manner in which the data was sourced.

The results of the independent price validation process are reported to senior management, and adjustments to fair values resulting from considerations of the above information are recorded where appropriate.

For fair values determined using a valuation model, the control framework may include, as applicable, independent development or validation of the logic within valuation models, the inputs to those models, any adjustments required outside the valuation models and, where possible, model outputs.

28 Fair value of financial instruments *(continued)*

The results of the independent validation process are reported to, and considered by, Valuation Committees. Valuation Committees are composed of individuals from several independent support functions (Product Control, Market Risk Management, Derivative Model Review Group and Finance) in addition to senior trading management.

Any adjustments made to the assessed fair values as a result of the validation process are reported to senior management.

Determination of fair value of financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, instruments designated at fair value through profit or loss, derivatives, and financial investments classified as available-for-sale (including treasury and other eligible bills, debt securities, and equity securities).

The reliability of the fair value measurement for financial instruments reported on the group's consolidated balance sheet at fair value is assessed according to how the fair values have been determined.

Fair values are determined according to the following hierarchy:

a *Level 1 – Quoted market price*: financial instruments with quoted prices for identical instruments in active markets.

b *Level 2 – Valuation technique using observable inputs*: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or financial instruments valued using models where all significant inputs are observable.

c *Level 3 – Valuation technique with significant non-observable inputs*: financial instruments valued using models where one or more significant inputs are not observable.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high.

However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are not observable. For these instruments, the fair value measurement derived is more judgemental. "Not observable" in this context means that there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur, but it generally does not mean that there is absolutely no market data available upon which to base a determination of fair value (consensus pricing data may, for example, be used).

Furthermore, the majority of the fair value derived from a valuation technique with significant non-observable inputs may in some cases still be attributable to the observable inputs. Consequently, the impact of uncertainty in the determination of the unobservable inputs will generally only give rise to a degree of uncertainty about the overall fair value of the financial instrument being measured. To assist in understanding the extent and the range of this uncertainty, additional information is provided in respect of instruments valued using non-observable inputs in the section below.

In certain circumstances, primarily where debt is hedged with interest rate derivatives or structured notes issued, the group uses fair value to measure the carrying value of its own debt in issue. Where available, the fair value will be based upon quoted prices in an active market for the specific instrument concerned. Where not available, the fair value will either be based upon quoted prices in an inactive market for the specific instrument concerned, or estimated by comparison with quoted prices in an active market for similar instruments. The fair value of these instruments therefore includes the effect of applying the credit spread which is appropriate to the group's liabilities. For all issued debt securities, discounted cash flow modelling is utilised to isolate that element of change in fair value that may be attributed to the group's credit spread movements rather than movements in other market factors such as benchmark interest rates or foreign exchange rates.

Issued structured notes and certain other hybrid instrument liabilities are included within trading liabilities, and marked at fair value. The credit spread applied to these instruments is derived from the spreads at which the group issues structured notes. These market spreads are significantly tighter than credit spreads observed in vanilla debt or credit default swap markets.

Gains and losses arising from changes in the credit spread of liabilities issued by the group reverse over the contractual life of the debt, provided that the debt is not repaid early.

28 Fair value of financial instruments *(continued)*

All net positions in non-derivative financial instruments, and all derivative portfolios, are valued at bid or offer price as appropriate. Long positions are marked at bid price; short positions are marked at offer price.

The fair values of large holdings of non-derivative financial instruments are based on a multiple of the value of a single instrument, and do not include block adjustments for the size of the holding.

The valuation techniques used when quoted market prices are not available incorporate certain assumptions that HSBC believes would be made by a market participant to establish fair value. When HSBC considers that there are additional considerations not included within the valuation model, appropriate adjustments may be made. Examples of such adjustments are:

– Credit risk adjustment: an adjustment to reflect the creditworthiness of OTC derivative counterparties;

– Market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on unobservable market data inputs (for example, as a result of illiquidity), or in areas where the choice of valuation model is particularly subjective.

However, in certain cases, the fair value of an instrument is determined in comparison with other observable market transactions concerning the same instrument or using a valuation method based solely on observable market data, in particular interest rate curves, volatility ranges deduced from option prices and exchange rates. Where such data is available, HSBC France recognises a gain or loss on trading portfolio transactions on the date the instrument is implemented. If no observable market data is available, the profit generated from the trading of certain complex financial instruments (day-one profit corresponding to the difference between the trading price and the valuation obtained from the valuation model) is not recognised immediately as income but recognised over the life of the transaction on an appropriate basis, or recognised in the income statement when the parameters become observable, either on maturity or at the end of the transaction.

An analysis of the movement in the deferred day 1 gain or loss is provided on page 103.

For interest rate derivatives, the Mark-IT consensus provides a valuation relating to structured products allowing for back-testing of models.

Transaction costs are not included in the fair value calculation. Trade origination costs such as brokerage, fee expense, and post-trade costs are included in operating expenses. The future cost of administering the over-the-counter derivative portfolio is also not included in fair value, but is expensed as incurred.

Private equity

The group's private equity positions are generally classified as available for sale and are not traded in an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The exercise of judgement is required because of uncertainties inherent in estimating fair value for private equity investments.

Debt securities, Treasury and other eligible bills, and Equities

These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, when available. When unavailable, fair value is determined by reference to quoted market prices for similar instruments.

Illiquidity in the market for debt securities backed by mortgages has resulted in less observable data being available. While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required.

In the absence of quoted market prices, fair value is determined using valuation techniques. The inputs to these valuation techniques are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs.

28 Fair value of financial instruments *(continued)*

Derivatives

Over-the-counter (*i.e.* non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon "no-arbitrage" principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices *via* model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Loans

Loans held at fair value are valued from broker quotes and/or market data consensus providers where available. Where unavailable, fair value will be determined based on an appropriate credit spread derived from other market instruments issued by the same or comparable entities.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security as described above, and the fair value of the embedded derivative will be determined as described in the section above on derivatives. The table below provides an analysis of the various bases described above which have been deployed for valuing financial assets and financial liabilities measured at fair value in the consolidated financial statements. The movement in the balances of assets and liabilities measured at fair value with significant unobservable inputs was mainly attributable to a reclassification in level 2.

	Valuation techniques:					
(in millions of euros)	*Level 1 - quoted market price*	*Level 2 - using observable inputs*	*Level 3 - with significant non-obser vable inputs*	*Third Party Total*	*Amounts with HSBC entities*	*Total*
At 31 December 2009						
Assets						
Trading assets	**55,073**	**1,409**	**–**	**56,482**	**5,047**	**61,529**
Financial assets designated at fair value	**–**	**591**	**–**	**591**	**4**	**595**
Derivatives	**6**	**37,825**	**6**	**37,837**	**18,120**	**55,957**
Financial investments available-for-sale	**4,038**	**940**	**–**	**4,978**	**170**	**5,148**
Liabilities						
Trading liabilities	**32,185**	**1,791**	**–**	**33,976**	**1,178**	**35,154**
Financial liabilities at fair value	**–**	**3,881**	**–**	**3,881**	**–**	**3,881**
Derivatives	**1**	**35,342**	**3**	**35,346**	**20,262**	**55,608**
At 31 December 2008						
Assets						
Trading assets	52,526	11,571	–	64,097	3,330	67,427
Financial assets designated at fair value	–	512	–	512	3	515
Derivatives	3,559	65,096	124	68,779	36,434	105,213
Financial investments available-for-sale	1,849	1,051	170	3,070	177	3,247
Liabilities						
Trading liabilities	23,117	7,911	–	31,028	2,864	33,892
Financial liabilities at fair value	204	2,002	–	2,206	–	2,206
Derivatives	4,598	63,050	124	67,772	35,224	102,996

Consolidated financial statements (continued)

28 Fair value of financial instruments *(continued)*

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

(in millions of euros)	Assets: Available for sale	Assets: Held for Trading	Assets: Designated at fair value through profit or loss	Assets: Derivatives	Liabilities: Held for trading	Liabilities: Designated at fair value through profit or loss	Liabilities: Derivatives
Private equity investments	–	–	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Loans held for securitisation	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives with monolines	–	–	–	–	–	–	–
Other derivatives	–	–	–	6	–	–	3
Other portfolio	–	–	–	–	–	–	–
At 31 December 2009	**–**	**–**	**–**	**6**	**–**	**–**	**3**
Private equity investments	–	–	–	–	–	–	–
Asset-backed securities	–	–	–	–	–	–	–
Leverage finance	–	–	–	–	–	–	–
Loans held for securitisation	–	–	–	–	–	–	–
Structured notes	–	–	–	–	–	–	–
Derivatives with monolines	–	–	–	–	–	–	–
Other derivatives	–	–	–	124	–	–	124
Other portfolio	170	–	–	–	–	–	–
At 31 December 2008	170	–	–	124	–	–	124

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

(in millions of euros)	***Assets:*** ***Available for sale***	***Assets:*** ***Held for Trading***	***Assets:*** ***Designated at fair value through profit or loss***	***Assets:*** ***Derivatives***	***Liabilities:*** ***Held for trading***	***Liabilities:*** ***Designated at fair value through profit or loss***	***Liabilities:*** ***Derivatives***
At 1 January 2009	**170**	**–**	**–**	**124**	**–**	**–**	**124**
Total gains or losses recognised in profit or loss [1]	**–**	**–**	**–**	**40**	**–**	**–**	**22**
Total gains or losses recognised in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchases	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issues	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sales	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Settlements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer out	**(170)** [2]	**–**	**–**	**(160)** [3]	**–**	**–**	**(144)** [3]
Transfer in	**–**	**–**	**–**	**2**	**–**	**–**	**1**
At 31 December 2009	**–**	**–**	**–**	**6**	**–**	**–**	**3**

1 *Of which losses recognised in profit or loss relating to assets and liabilities held at the end of the reporting period for EUR 3 million.*
2 *Intercompany balance now excluded of this report.*
3 *Transfer out related to the transfer of the activity of HSBC Financial Products (France).*

28 Fair value of financial instruments *(continued)*

For assets and liabilities classified as held for trading, realised and unrealised gains and losses are presented in the income statement under "Trading income excluding net interest income". Fair value changes on long-term debt designated at fair value and related derivatives are presented in the income statement under "Changes in fair value of long-term debt issued and related derivatives". The income statement line item "Net income/ (expense) from other financial instruments designated at fair value" captures fair value movements on all other financial instruments designated at fair value and related derivatives.

Realised gains and losses from available-for-sale securities are presented under "Gains less losses of financial investments" in the income statement while unrealised gains and losses are presented in "Fair value gains/ (losses) taken to equity" within "Available-for-sale investments" in other comprehensive income.

Fair value of financial instruments not carried at fair value

Fair values at the balance sheet date of the assets and liabilities set out below are estimated for the purpose of disclosure as follows:

(i) Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions where available. In the absence of observable market transactions, fair value is estimated using discounted cash flow models. Performing loans are grouped, as far as possible, into homogeneous pools segregated by amount, customer type, currency, facility grade, maturity and coupon rates. In general, contractual cash flows are discounted using the group's estimate of the discount rate that a market participant would use in valuing instruments with similar maturity, repricing and credit risk characteristics. For maturity buckets where there is no recent price information, a linear trend is assumed between known points.

For loans and deposits, the fair value of the amounts repayable on demand is estimated as the carrying value at the balance sheet date.

The fair value of a loan portfolio reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans.

For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(ii) Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that take into consideration either the prices or future earnings streams of equivalent quoted securities.

(iii) Deposits by banks and customer accounts

For the purposes of estimating fair value, deposits by banks and customer accounts are grouped by residual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(iv) Debt securities in issue and subordinated liabilities

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

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

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

The fair values of intangible assets, such as values placed on portfolios of core deposits, credit card and customer relationships, are not included above because they are not financial instruments.

Consolidated financial statements (continued)

28 Fair value of financial instruments *(continued)*

The following table lists those financial instruments for which their carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently:

Assets	Liabilities
Cash and balances at central banks	Items in the course of transmission to other banks
Items in the course of collection from other banks	Short-term payables within "Other liabilities"
Short-term receivables within "Other assets"	

The following table provides an analysis of the fair value of financial instruments not measured at fair value in the balance sheet. For all other instruments the fair value is equal to the carrying value:

	2009		2008	
(in millions of euros)	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
Assets				
Loans and advances to banks	**30,705**	**30,707**	27,270	27,273
Loans and advances to customers	**49,780**	**49,586**	51,286	50,370
Liabilities				
Deposits by banks	**41,035**	**41,035**	42,136	42,136
Customer accounts	**49,338**	**49,344**	53,791	53,816
Debt securities in issue	**14,769**	**14,778**	20,351	20,430
Subordinated liabilities	**166**	**169**	207	210

29 Maturity analysis of financial assets and liabilities

The following is an analysis of undiscounted cash flows payable under financial liabilities by remaining contractual maturities at the balance sheet date.

Trading liabilities and trading derivatives have been included in the "On demand" time bucket and not by contractual maturity, because trading liabilities are typically held for short periods of time. The undiscounted cash flows on hedging derivative liabilities are classified according to their contractual maturity.

	At 31 December 2009					
(in millions of euros)	***On demand***	***Due within 3 months***	***Due between 3 and 12 months***	***Due between 1 and 5 years***	***Due after 5 years***	***Total***
Deposits by banks [1]	**571**	**49,469**	**8,130**	**2,325**	**734**	**61,229**
Customer accounts [1]	**18,135**	**50,675**	**4,550**	**616**	**224**	**74,200**
Trading liabilities	**35,154**	**–**	**–**	**–**	**–**	**35,154**
Financial liabilities designated at fair value	**–**	**46**	**–**	**4,233**	**549**	**4,828**
Derivatives	**55,064**	**–**	**139**	**405**	**–**	**55,608**
Debt securities in issue	**–**	**8,699**	**1,569**	**4,679**	**18**	**14,965**
Subordinated liabilities	**–**	**–**	**–**	**161**	**37**	**198**
Other financial liabilities	**810**	**1,342**	**670**	**200**	**–**	**3,022**
Loan commitments	**47**	**1,256**	**4,200**	**10,792**	**1,332**	**17,627**
Total	**109,781**	**111,487**	**19,258**	**23,411**	**2,894**	**266,831**

1 *Deposits by banks and customer accounts do not include netting of the repos agreements.*

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

	At 31 December 2008					
(in millions of euros)	*On demand*	*Due within 3 months*	*Due between 3 and 12 months*	*Due between 1 and 5 years*	*Due after 5 years*	*Total*
Deposits by banks[1]	723	47,481	2,444	2,572	1,464	54,684
Customer accounts[1]	17,161	45,360	2,418	230	522	65,691
Trading liabilities	33,892	–	–	–	–	33,892
Financial liabilities designated at fair value	–	15	4	2,187	568	2,774
Derivatives	102,388	–	257	352	–	102,997
Debt securities in issue	–	12,590	2,629	4,261	1,805	21,285
Subordinated liabilities	–	–	40	–	230	270
Other financial liabilities	2,813	1,176	638	551	1	5,179
Loan commitments	129	2,184	3,211	8,975	2,166	16,665
Total	157,016	108,806	11,641	19,128	6,756	303,437

1 *Deposits by banks and customer accounts do not include netting of the repos agreements.*

The following is an analysis of assets and liabilities by remaining contractual maturities at the balance sheet date for assets and liability line items that combines amounts expected to be recovered or settled in under one year and after one year.

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

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

	At 31 December 2009		
(in millions of euros)	***Due within one year***	***Due after more than one year***	***Total***
Assets			
Financial assets designated at fair value	**–**	**595**	**595**
Loans and advances to banks	**29,001**	**1,704**	**30,705**
Loans and advances to customers	**31,246**	**18,534**	**49,780**
Financial investments	**920**	**4,228**	**5,148**
Other financial assets	**458**	**3**	**461**
	61,625	**25,064**	**86,689**
Liabilities			
Deposits by banks	**38,466**	**2,569**	**41,035**
Customer accounts	**48,521**	**817**	**49,338**
Financial liabilities designated at fair value	**42**	**3,839**	**3,881**
Debt securities in issue	**10,236**	**4,533**	**14,769**
Other financial liabilities	**799**	**58**	**857**
Subordinated liabilities	**–**	**166**	**166**
	98,064	**11,982**	**110,046**

Consolidated financial statements (continued)

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

(in millions of euros)	At 31 December 2008 *Due within one year*	*Due after more than one year*	*Total*
Assets			
Financial assets designated at fair value	–	515	515
Loans and advances to banks	25,705	1,565	27,270
Loans and advances to customers	31,960	19,326	51,286
Financial investments	51	3,196	3,247
Other financial assets	5,284	45	5,329
	63,000	24,647	87,647
Liabilities			
Deposits by banks	38,932	3,204	42,136
Customer accounts	53,133	658	53,791
Financial liabilities designated at fair value	19	2,187	2,206
Debt securities in issue	15,062	5,289	20,351
Other financial liabilities	2,450	549	2,999
Subordinated liabilities	–	207	207
	109,596	12,094	121,690

Further information regarding the group liquidity and funding management is available in Note 33.

30 Assets charged as security for liabilities and collateral accepted as security for assets

Financial assets pledged to secure liabilities are as follows:

(in millions of euros)	**2009**	2008
Treasury bills and other eligible securities	**–**	–
Loans and advances to banks	**–**	–
Loans and advances to customers	**–**	–
Debt securities	**38,612**	37,640
Equity shares	**–**	–
	38,612	37,640

These transactions are conducted under terms that are usual and customary to standard securities lending and repurchase agreements.

Collateral accepted as security for assets

In 2009, the fair value of financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default was EUR 89,273 million (EUR 66,154 million in 2008).

In 2009, the fair value of financial assets accepted as collateral that have been sold or repledged was EUR 78,181 million (EUR 61,518 million in 2008). The group is obliged to return these assets.

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

31 Called up share capital

The share capital of HSBC France at 31 December 2009 was EUR 337 million divided into 67,437,820 ordinary shares of EUR 5 each.

	Number of HSBC France ordinary shares	*Amount (in millions of euros)*
At 1 January 2009	**67,437,820**	**337**
Shares issued	–	–
At 31 December 2009	**67,437,820**	**337**
At 1 January 2008	75,963,895	380
Shares issued	221,154	1
Reduction of capital by share buy back	(8,750,000)	(44)
Merger HSBC Hervet and HSBC de Baecque Beau	2,771	–
At 31 December 2008	67,437,820	337

32 Notes on the cash flow statement

Non-cash items included in income

(in millions of euros)	**31 December 2009**	31 December 2008
Depreciation and amortisation	**70**	69
Share-based payments	**21**	44
Revaluations on investment property	**–**	–
Loan impairment losses	**178**	127
Loans written off net of recoveries	**(89)**	(39)
Provisions raised	**2**	37
Provisions utilised	**(21)**	(12)
Impairment of financial investments	**48**	119
Accretion of discounts and amortisation of premiums	**–**	–
Other	**(26)**	–
	183	345

Change in operating assets

(in millions of euros)	**31 December 2009**	31 December 2008
Change in prepayments and accrued income	**481**	(364)
Change in net trading securities and net derivatives	**2,000**	(10,843)
Change in loans and advances to banks	**(18,052)**	1,982
Change in loans and advances to customers	**1,426**	4,046
Change in financial assets designated at fair value	**(79)**	(516)
Change in other assets	**5,941**	(1,314)
	(8,283)	(7,009)

Consolidated financial statements (continued)

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

Change in operating liabilities

(in millions of euros)	**31 December 2009**	31 December 2008
Change in accruals and deferred income	**(258)**	(34)
Change in deposits by banks	**(1,101)**	(6,257)
Change in customer accounts	**(4,454)**	9,101
Change in debt securities in issue	**(5,582)**	(2,489)
Change in financial liabilities designated at fair value	**1,620**	665
Change in other liabilities	**1,674**	1,872
	(8,101)	2,858

Breakdown of cash and cash equivalents

(in millions of euros)	**31 December 2009**	31 December 2008
Cash and balances at central banks	**585**	2,077
Items in the course of collection from other banks	**1,079**	1,234
Loans and advances to banks due in one month or less	**14,191**	31,909
Treasury bills, other bills and certificates of deposit due in less than three months	**1,096**	784
Less: cash accounts (liabilities)	**(958)**	(1,041)
	15,993	34,963

33 Risk management

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

The most important types of risk arising from financial instruments are credit risk (which includes country and cross-border risk), liquidity risk and market risk. The management of these risks is discussed below. Market risk includes foreign exchange, interest rate and equity price risk. In addition, risk also arises from transactions with special purpose entities, both on- and off-balance sheet, and other types of off-balance sheet arrangement, including financial guarantees, letters of credit and lending commitments.

The management of other risks that are significant to the group is discussed in the Risk management section on pages 57 to 62.

Credit risk management

Initiatives undertaken and risks identified

Credit risk management within the HSBC France group is the responsibility of the Credit Risk Department (DRC), which is independent of the business lines and reports hierarchically to the Deputy CEO in charge of risk (Chief Risk Officer) and functionally to the Risk Department "Europe" of the HSBC Group in London.

Credit risk management for each of the main business lines (Global Banking and Markets, Commercial Banking, Personal Financial Services) is supervised by dedicated Risk Management Committees (RMC) which meet monthly, chaired by the Chief Risk Officer. Decisions and information concerning credit risk from the various RMC meetings are reported to the HSBC France Risk Management Meeting (monthly) in the same way as other risk categories. Minutes of these committee meetings and a summary are then sent to the monthly European Risk Management Committee.

33 Risk management *(continued)*

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

HSBC Holdings plc is responsible for the formulation of high-level credit risk policies and provides high-level centralised oversight and management of credit risk for its subsidiaries worldwide. In addition, its responsibilities include:

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

Credit quality

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

Previously, the Group had deployed a seven-grade rating system based on a "composite" assessment of the likelihood and extent of delinquency and risk mitigation. This legacy risk rating scale has been superseded by a more granular methodology, based on probability of default and loss estimates, compliant with an internal ratings-based ("IRB") approach required to support the Basel II framework for calculating minimum capital requirement. The integration of this framework into the reporting structure will enable reporting on the new basis to internal management in accordance with the Group's IRB obligations.

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Two types of impairment allowance are in place: individually assessed and collectively assessed, which are discussed in Note 2 g.

Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk in respect of financial instruments, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet offsetting requirements as set out in Note 2. For financial assets recognised in the balance sheet, the exposure to credit risk equals their carrying amount. For financial guarantees granted, the maximum exposure to credit risk is the maximum amount that the group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

In respect of certain financial assets, the group typically has legally enforceable rights to offset certain credit exposures against amounts owing to the same counterparty. In normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, for reporting purposes the financial assets are not offset against the respective financial liabilities. However, the exposure to credit risk relating to the respective financial assets is reduced as tabulated below.

33 Risk management *(continued)*

(in millions of euros)	31 December 2009 *Maximum exposure*	*Offset*	*Net exposure to credit risk*
Items in the course of collection from other banks	**1,079**	**–**	**1,079**
Trading assets	**61,529**	**–**	**61,529**
– treasury and other eligible bills	**38,125**	**–**	**38,125**
– debt securities	**10,415**	**–**	**10,415**
– loans and advances	**12,989**	**–**	**12,989**
Financial assets designated at fair value	**595**	**–**	**595**
– debt securities	**4**	**–**	**4**
– loans and advances	**591**	**–**	**591**
Derivatives	**55,957**	**(50,227)**	**5,730**
Loans and advances held at amortised cost	**80,485**	**(14,690)**	**65,795**
– loans and advances to banks	**30,705**	**–**	**30,705**
– loans and advances to customers	**49,780**	**(14,690)**	**35,090**
Financial investments	**4,489**	**–**	**4,489**
– treasury and other eligible bills	**2,012**	**–**	**2,012**
– debt securities	**2,477**	**–**	**2,477**
Other assets	**1,571**	**–**	**1,571**
Off-balance sheet	**25,977**	**–**	**25,977**
– financial guarantees	**6,846**	**–**	**6,846**
– loan commitments and other credit-related commitments	**19,131**	**–**	**19,131**
Total	**231,684**	**(64,917)**	**166,767**

33 Risk management *(continued)*

(in millions of euros)	31 December 2008 *Maximum exposure*	*Offset*	*Net exposure to credit risk*
Items in the course of collection from other banks	1,234	–	1,234
Trading assets	65,375	–	65,375
– treasury and other eligible bills	40,885	–	40,885
– debt securities	9,357	–	9,357
– loans and advances	15,133	–	15,133
Financial assets designated at fair value	515	–	515
– debt securities	3	–	3
– loans and advances	512	–	512
Derivatives	105,213	(85,022)	20,191
Loans and advances held at amortised cost	78,556	(6,718)	71,838
– loans and advances to banks	27,270	–	27,270
– loans and advances to customers	51,286	(6,718)	44,568
Financial investments	2,399	–	2,399
– treasury and other eligible bills	309	–	309
– debt securities	2,090	–	2,090
Other assets	4,829	–	4,829
Off-balance sheet	25,391	–	25,391
– financial guarantees	7,226	–	7,226
– loan commitments and other credit-related commitments	18,165	–	18,165
Total	283,512	(91,740)	191,772

Guarantees received and other credit risk enhancements

Loans and advances

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

While guarantees received are an important mitigation to credit risk, it is the group's policy to establish that loans are within the customer's capacity to repay rather than to over-rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured.

The principal collateral types are as follows:

- in the personal sector, mortgages over residential properties;
- in the commercial and industrial sector, charges over business assets such as premises, stock and debtors;
- in the commercial real estate sector, charges over the properties being financed;
- in the financial sector, charges over financial instruments such as debt securities and equities in support of trading facilities; and,
- credit derivatives including credit default swaps (CDS) are also used to manage credit risk in the group's loan portfolio.

33 Risk management *(continued)*

The group does not disclose the fair value of collateral held as security or other credit enhancements on loans and advances past due but not impaired or on individually assessed impaired loans and advances, as it is not available.

Other securities

Other securities held as guarantee for financial assets other than loans and advances are determined by the structure of the instrument. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets.

Derivatives

The ISDA Master Agreement is the group's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-agreed termination events occur. It is common, and the group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions.

Items in course of collection from other banks

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the group's investment banking and markets transactions on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated through being effected *via* assured payment systems, or on a delivery versus payment basis.

Concentrations of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

The group provides a diverse range of financial services principally in France. Its portfolio of financial instruments with credit risk is highly diversified with no exposures to individual industries or economic groupings totalling more than 10 per cent of consolidated total assets, except as follows:

– the majority of the group's exposure to credit risk is concentrated in France. Within France, the group's credit risk is diversified over a wide range of industrial and economic groupings; and,

– the group's position as part of a major international banking group means that it has a significant concentration of exposure to banking counterparties. The majority of credit risk to the banking industry is concentrated in Europe.

There are no special collateral requirements relating to industrial concentrations, with the exception of exposures to the property sector. The majority of exposures to the property and construction industry and the residential mortgage market are secured on the underlying property.

There is no direct exposure to US subprime.

33 Risk management *(continued)*

Loans and advances to customers by industry sector

	31 December 2009		31 December 2008	
	Gross loans and advances to customers (in millions of euros)	***Gross loans by industry sector as a % of total gross loans (%)***	*Gross loans and advances to customers (in millions of euros)*	*Gross loans by industry sector as a % of total gross loans (%)*
Personal	**10,097**	**20.01**	10,452	20.15
Residential mortgages	**3,002**	**5.95**	3,137	6.05
Other personal	**7,095**	**14.06**	7,315	14.10
Corporate and commercial	**21,612**	**42.83**	25,059	48.29
Commercial, industrial and international trade	**10,225**	**20.26**	12,758	24.58
Commercial real estate	**6,394**	**12.67**	6,926	13.35
Other property-related	**226**	**0.45**	264	0.51
Government	**171**	**0.34**	200	0.39
Other commercial	**4,596**	**9.11**	4,911	9.46
Financial	**18,753**	**37.16**	16,378	31.56
Non-bank financial institutions	**18,734**	**37.12**	16,332	31.47
Settlement accounts	**19**	**0.04**	46	0.09
Total gross loans and advances to customers	**50,462**	**100.00**	51,889	100.00

Credit quality of financial instruments

The four classifications below describe the credit quality of the group's lending, debt securities portfolios and derivatives. These categories each encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external ratings attributed by external agencies to debt securities.

There is no direct correlation between the internal and external ratings at granular level, except insofar as both fall within one of the four classifications.

Quality Classification

	Wholesale lending and Derivatives	*Retail lending*	*Debt securities / other*
Strong	CRR 1 to CRR 2	EL 1 to EL 2	A- and above
Medium	CRR 3 to CRR 5	EL 3 to EL 5	B+ to BBB+, and unrated
Sub-standard	CRR 6 to CRR 8	EL 6 to EL 8	B and below
Impaired	CRR 9 to CRR 10	EL 9 to EL 10	Impaired

33 Risk management *(continued)*

Quality classification definitions

"Strong": exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Retail accounts operate within applicable product parameters and only exceptionally show any period of delinquency.

"Medium": exposures require closer monitoring, with low to moderate default risk. Retail accounts typically show only short periods of delinquency, with losses expected to be minimal following the adoption of recovery processes.

"Sub-standard": exposures require varying degrees of special attention and default risk is of greater concern. Retail portfolio segments show longer delinquency periods of generally up to 90 days; past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.

"Impaired": exposures have been assessed, individually or collectively, as impaired. The group observes the disclosure convention, reflected in the quality classification definitions above, that all retail accounts delinquent by 90 days or more are considered impaired. Such accounts may occur in any EL grade, whereby in the higher quality grades the grading assignment will reflect the offsetting of the impact of delinquency status by credit risk mitigation in one form or another.

Granular risk rating scales

The CRR (Customer Risk Rating) 10-grade scale maps to a more granular underlying 22-grade scale of obligor probability of default. The scales are used group-wide for all distinct customers, depending on the Basel II approach adopted for the exposure in question. The EL (Expected Loss) 10-grade scale for retail business summarises a more granular, group-wide 29-grade scale combining obligor and facility/product risk factors in a composite measure. For consistency of disclosure and based on market practice for transactions in debt securities and certain other financial instruments, external ratings have been aligned as above, and in the table of "Distribution of financial instruments by credit quality" below, to the four quality classifications defined for internally-rated exposures, although it should be noted that there is no fixed correlation between internal and external ratings. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term ratings are reported below against the long-term rating of the issuer of the short-term debt securities. If major rating agencies have different ratings for the same debt securities, the securities are reported against the lower rating.

The basis of reporting has been changed from previous years, replacing the former uniform seven-grade portfolio quality scale, in order both to extend the range of financial instruments covered in the presentation of portfolio quality and to reflect the more risk-sensitive rating systems introduced under the group's Basel II programme.

Impairment is not measured for assets held in trading portfolios or designated at fair value, as assets in such portfolios are managed according to movements in fair value, and the fair value movement is taken directly through the profit and loss statement. Consequently, all such balances are reported under "Neither past due nor impaired".

For details of impairment incurred on available-for-sale debt and equity securities, see "Accounting policies" in Note 2.

33 Risk management *(continued)*

Distribution of financial instruments by credit quality

(in millions of euros)	At 31 December 2009					
	Neither past due nor individually impaired					
	Strong	*Medium*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Total*
Items in the course of collection from other banks	**1,079**	**–**	**–**	**–**	**–**	**1,079**
Trading assets	**57,214**	**4,302**	**13**	**–**	**–**	**61,529**
Treasury and other eligible bills	**38,125**	**–**	**–**	**–**	**–**	**38,125**
Debt securities	**8,734**	**1,681**	**–**	**–**	**–**	**10,415**
Loans and advances to banks	**9,572**	**1,149**	**13**	**–**	**–**	**10,734**
Loans and advances to customers	**783**	**1,472**	**–**	**–**	**–**	**2,255**
Financial assets designated at fair value	**595**	**–**	**–**	**–**	**–**	**595**
Treasury and other eligible bills	**–**	**–**	**–**	**–**	**–**	**–**
Debt securities	**4**	**–**	**–**	**–**	**–**	**4**
Loans and advances to banks	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers	**591**	**–**	**–**	**–**	**–**	**591**
Derivatives	**40,935**	**14,867**	**155**	**–**	**–**	**55,957**
Loans and advances held at amortised cost	**55,422**	**22,848**	**809**	**712**	**694**	**80,485**
Loans and advances to banks	**27,187**	**3,518**	**–**	**–**	**–**	**30,705**
Loans and advances to customers	**28,235**	**19,330**	**809**	**712**	**694**	**49,780**
Financial investments	**4,287**	**202**	**–**	**–**	**–**	**4,489**
Treasury and other eligible bills	**2,012**	**–**	**–**	**–**	**–**	**2,012**
Debt securities	**2,275**	**202**	**–**	**–**	**–**	**2,477**
Other assets	**71**	**1,500**	**–**	**–**	**–**	**1,571**
Endorsements and acceptances	**–**	**–**	**–**	**–**	**–**	**–**
Other	**71**	**1,500**	**–**	**–**	**–**	**1,571**
Total	**159,603**	**43,719**	**977**	**712**	**694**	**205,705**

Consolidated financial statements (continued)

33 Risk management *(continued)*

	At 31 December 2008					
	Neither past due nor individually impaired					
(in millions of euros)	*Strong*	*Medium*	*Sub-standard*	*Past due not impaired*	*Impaired*	*Total*
Items in the course of collection from other banks	1,234	–	–	–	–	1,234
Trading assets	58,643	6,732	–	–	–	65,375
Treasury and other eligible bills	40,885	–	–	–	–	40,885
Debt securities	6,400	2,957	–	–	–	9,357
Loans and advances to banks	10,724	944	–	–	–	11,668
Loans and advances to customers	634	2,831	–	–	–	3,465
Financial assets designated at fair value	515	–	–	–	–	515
Treasury and other eligible bills	3	–	–	–	–	3
Debt securities	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	512	–	–	–	–	512
Derivatives	88,416	16,797	–	–	–	105,213
Loans and advances held at amortised cost	46,272	31,131	560	173	420	78,556
Loans and advances to banks	22,369	4,885	16	–	–	27,270
Loans and advances to customers	23,903	26,246	544	173	420	51,286
Financial investments	1,096	1,303	–	–	–	2,399
Treasury and other eligible bills	309	–	–	–	–	309
Debt securities	787	1,303	–	–	–	2,090
Other assets	–	4,829	–	–	–	4,829
Endorsements and acceptances	–	3	–	–	–	3
Other	–	4,826	–	–	–	4,826
Total	196,176	60,792	560	173	420	258,121

The increase in impaired loans (non performing loans less individually impaired allowances) is partly the result of a deterioration in the underlying corporate credit portfolios which was due to the negative economic situation prevailing throughout 2009 but also came from the reinforcement and the centralisation, at the end of 2008, of HSBC France's Credit Monitoring and Special Situations teams, which have allowed earlier identification and recognition of problem situations.

Several new, larger and more complex exposures were subject to loan restructuring negotiations in 2009, increasing the level of non performing loans given that it is HSBC France's policy to classify all such exposures as non performing at an early stage.

Provisioning levels are decided monthly in HSBC France via the appropriate customer group provisioning committees. All provisions for exposures exceeding EUR100 thousand are reviewed individually, which ensures that provisioning levels are at all times appropriate.

33 Risk management *(continued)*

Ageing analysis of past due but not impaired gross financial instruments

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired. There are no other significant balance sheet items where past due balances are not considered impaired.

(in millions of euros)	*Up to 29 days*	*30-59 days*	*60-89 days*	*Total*
As at 31 December 2009	**623**	**59**	**30**	**712**
As at 31 December 2008	148	19	6	173

Amount of loans and advances past due but not impaired now include the current accounts of individual (non professional) customers. On a comparable basis, the 31 December 2009 Past due not impaired gross financial instruments declined slightly.

Movement in allowance accounts for total loans and advances

	Year ended 31 December 2009		
(in millions of euros)	***Individually assessed***	***Collectively assessed***	***Total***
At 1 January	**(525)**	**(77)**	**(602)**
Amounts written off	**91**	**–**	**91**
Release of allowances no longer required	**103**	**7**	**110**
(Charge) to income statement	**(282)**	**(8)**	**(290)**
Exchange and other movements	**9**	**–**	**9**
At 31 December	**(604)**	**(78)**	**(682)**

	Year ended 31 December 2008		
(in millions of euros)	*Individually assessed*	*Collectively assessed*	*Total*
At 1 January	(644)	(93)	(737)
Amounts written off	43	–	43
Release of allowances no longer required	142	7	149
(Charge) to income statement	(268)	(12)	(280)
Exchange and other movements [1]	202	21	223
At 31 December	(525)	(77)	(602)

1 *In which sale of the regional banking subsidiaries EUR 198 million for individually assessed and EUR 21 million for collectively assessed.*

Impairment allowances against loans and advances to customers

(in %)	**31 December 2009**	31 December 2008
Total impairment allowances to gross lending [1]:		
– individually assessed impairment allowances	**1.80**	1.40
– collectively assessed impairment allowances	**0.23**	0.20
Total	**2.03**	1.60

1 *Net of reverse repo transactions and settlement accounts.*

Consolidated financial statements (continued)

33 Risk management *(continued)*

Loan impairment charges and other credit risk provisions

(in millions of euros)	**Year ended 31 December 2009**	Year ended 31 December 2008
Individually assessed impairment allowances		
New allowances	**282**	268
Release of allowances no longer required	**(103)**	(142)
Recoveries of amounts previously written off	**(2)**	(4)
	177	122
Collectively assessed impairment allowances		
New allowances	**8**	12
Release of allowances no longer required	**(7)**	(7)
Recoveries of amounts previously written off	**–**	–
	1	5
Total charge for impairment losses	**178**	127
– banks	**–**	–
– customers	**178**	127
Other credit risk provisions	**–**	1
Impairment charges on debt security investments available-for-sale	**(1)**	(1)
Loan impairment charges and other credit risk provisions	**177**	127
Customer charge for impairment losses as a percentage of closing gross loans and advances	**0.35%**	0.24%
Balances outstanding		
Non-performing loans	**1,298**	946
Individually impairment allowances	**604**	525
Gross loans and advances	**81,167**	79,158
Total allowances cover as a percentage of non-performing loans and advances	**46.53%**	55.50%

Liquidity and funding management

Liquidity risk is defined as the risk of the group not having sufficient financial resources to honour its obligations when they become due or of it obtaining these resources at excessive cost. This risk results from the different maturities of cash flows.

Funding risk (a form of liquidity risk) occurs when the resources to finance an illiquid asset cannot be obtained in accordance with the terms provided and when necessary.

Therefore, the objective of HSBC France's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. HSBC France maintains a diversified and stable funding base of core retail and corporate customer deposits, interbanks debt. Moreover, HSBC France holds a portfolio of highly liquid assets.

HSBC France adapts its liquidity and funding management policy to respond to developments in the group's business activities and changes in the markets in which HSBC France operates. This policy will continue to be adapted to take into account, in particular, current market disturbances.

Liquidity and funding management is carried out respecting the practices and limits set by the group. These limits take account of the liquidity and depth of the markets in which HSBC France operates.

That liquidity and funding management process includes:

– monitoring balance sheet liquidity ratios against internal and regulatory requirements;

– projecting cash flows and determining the amount of liquid assets needed to maintain balance;

– maintaining a diverse range of funding sources;

- managing the concentration and profile of debt maturities;
- monitoring funding plans;
- management of contingent liquidity commitments in accordance with pre-determined limits;
- monitoring depositors' concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and,
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

Main sources of funding

Customer demand deposits (current accounts and savings accounts) build a significant component of the group's overall financing that has proved stable over the years.

In 2009, HSBC France continued with its balanced strategy aiming to raise the resources needed to develop its business activities at the lowest cost.

HSBC France is an important player in the money markets and debt capital markets. HSBC France routinely accepts deposits, often of a short-term nature, from banks and other institutions. In addition, the funding of capital markets activities, by repo arrangements for example, results in funding directly in the wholesale market.

Most of the bank's asset base is euro-based but may also be in sterling and US dollars and to a small extent in other currencies. The non-euro asset base is funded through currency-denominated resources taken from the Eurocurrency interbank market, from central banks, corporate customers and other financial institutions.

An analysis of the cash flows payable by the group by remaining contractual maturities at the balance sheet date is discussed in Note 29.

Monitoring of the Advances to Deposits ratio

The HSBC Group favours financing customer loans using customer deposits and its aim is to be independent of the capital markets in the short term. In order to achieve this, the Group sets limits for banking subsidiaries looking to limit growth in customer loans that would not be financed through growth in stable resources using an "Advances to Deposits" ratio.

In addition to the Advances to Deposits ratio, HSBC France uses a number of other indicators to manage the group's liquidity, as well as projected cash flow requirements on the basis of two scenarios:

- one corresponding to a crisis specific to HSBC; and,
- the other one corresponding to a systemic banking crisis.

Those scenarios are adapted to the specific requirements of HSBC France's business lines and the markets in which it operates.

The sources of deposits, by type of institution, are monitored in order to avoid an undesirable dependence on any particular institution or category of depositor.

The HSBC France group maintains liquid assets, allowing it to honour any unexpected cash demands by selling marketable securities and through additional financing, for example in the interbank market or *via* repo transactions.

Monitoring of the French regulatory liquidity ratio

HSBC France complies with the regulatory liquidity ratio requirements of the *Banque de France*, overseen by the French *Commission bancaire*. Banks are required to submit quarterly returns which present the components of the monthly liquidity ratio for the last three months. Banks simultaneously submit a future forecast of liquidity positions called "observation ratios". The ratios are derived by dividing liquid assets (which are subject to discount) by liabilities (which include a proportion of customer accounts, 5 per cent of off-balance-sheet commitments and all borrowings and subordinated debts maturing within one month). Banks are required to maintain, at all times, a ratio in excess of 100 per cent. In 2009, the average liquidity ratio of HSBC France was 115 per cent on an individual basis.

Consolidated financial statements (continued)

33 Risk management *(continued)*

HSBC France follows the HSBC Group's policy that on an all-currency basis all professional deposits with residual maturities up to one month, plus a percentage of deposit liabilities should be backed by liquid assets. This means that, in a crisis, the group would be able to meet its obligations as they fall due for at least one month without recourse to the wholesale markets. This requirement is additional to the regulatory requirement.

Contingent liquidity

Within the framework of its ordinary business activities, HSBC France provides funding commitments that are not used and therefore constitute a source of contingent liquidity demand. These commitments may be given to customers and loan financing vehicles *via* the liquidity line.

Like other HSBC Group entities, HSBC France takes these liquidity commitments into consideration in the group's liquidity and funding management, particularly by means of projections based on crisis scenarios.

Liquidity and funding contingency plans

HSBC France's liquidity management also entails defining and monitoring effective liquidity and funding contingency plans to be implemented in the event of a liquidity and/or funding crisis (LCP/FCP), in order to cope with a crisis situation by having drawn up an executable plan.

Market risk management

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

A risk management policy determined by HSBC France's Executive Management oversees market risk by global limits, which it reviews, and also validate the proposals made by Market Risk Management in Market Risk Committee meetings.

The HSBC Group assigns these limits to HSBC France using the process described in the section on WMR. These limits are divided by business line and translated into operational limits within each entity by the market risk managers.

These limits are defined in terms of lists of authorised instruments, underlying assets, markets and maturities, Value at Risk, sensitivity, maximum loss and stress tests. They are revised at least once a year by the Market Risk Committee and may be amended on an *ad hoc* basis.

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

Wholesale & Market Risk (WMR)

This team assigns risk limits to the different HSBC Group entities by means of room mandates. These limits are also reviewed and ratified by a number of general Group committees: HSBC Bank plc ALCO and the HSBC Bank plc Risk Management Meeting (RMM). WMR also controls observance of these room mandates on a consolidated level and for each entity.

Market Risk Management and Control (MRMaC)

Within Wholesale and Market Risk (WMR), Market Risk Management and Control devises, develops and implements market risk policy, covering in particular:

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

33 Risk management *(continued)*

Market Risk Management (MRM)

Market Risk Management (MRM) defines market risk limits, manages breaches of limits, analyses positions, ensures their intra-day monitoring depending on market movements, analyses the relevance of risk measures (sensitivity, VaR, stress scenarios), provides summary analysis of market risks to Senior Management, defines procedures for improving risk monitoring and implements new indicators, depending on market developments.

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

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

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

The Head of MRMaC France is a member of the HSBC France Market Risk Committee, the HSBC France Balance Sheet ALCO and the HSBC France Capital Management Committee and participates in the HSBC France Audit Committee. He attends the Executive Management periodical information meeting organised by the Chief Operating Officer of Global Banking and Markets. He also sits on the HSBC Bank plc EMEA and global Stress Test Review Group Committee.

Market Risk Control (MRC)

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

The Market Risk Control teams are aligned with the organisation of the bank's business lines.

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

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

Quantitative Risk and Valuation Group (QRVG)

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

Product Control

Product Control is responsible on a daily basis and independently for the production, analysis, recording and control of the daily valuation of positions, defines reserves, and monitors the resolution of collateral disputes and QRVG recommendations in terms of model limits.

Valuation Committee

This committee is managed by the Head of Product Control Global Banking and Markets and is made up of members of QRVG, Product Control, MRM and front office representatives. It meets in the first two weeks of every month and discusses the parameters of the models used by the front office and valuation assumptions. Also examined during these meetings are changes in the main calibration and price control indicators. Any specific modelling in the systems is also reviewed in order to ensure that they are conservative.

33 Risk management *(continued)*

Risk Management Meeting

The Risk Management Meeting is a regular meeting of the main heads of risk management and permanent control departments chaired by the Deputy CEO in charge of risk management and control. The purpose of this meeting is to provide Executive Management with information about market risks.

HSBC France Audit Committee and Board of Directors

HSBC France Audit Committee and Board of Directors play the role assigned to them by legislative and regulatory requirements. The Head of MRMaC France gives a detailed presentation to the Audit Committee of market risks and how their controls are organised. A presentation of the main information relating to market risk is then made to HSBC France Board of Directors.

HSBC France Market Risk Committee

This committee meets once a month under the chairmanship of the Deputy CEO in charge of risk management and permanent control. It supervises market risks in a systematic manner, ensures that appropriate controls exist and approves the main rules included in the supervision system.

The HSBC France Market Risk Committee consists of the main heads of the business segments concerned by these risks and the main heads of the associated control functions, including the Global Banking and Markets Chief Operating Officer, the Head of MRMaC France, the Head of QRVG, the Head of Global Banking and Markets Finance, the Head of Global Banking and Markets Credit and the Head of Global Banking and Markets Product Control.

MRMaC France acts as Secretary of the Committee.

The HSBC France Market Risk Committee reviews summary risk and results indicators, analyses any significant events observed during the previous month, including any breaches of one-page mandates, instructs requests for permanent limits, and reviews temporary limits.

The Committee validates changes to calculation methods and risk measurement methods relating guaranteed funds for Sinopia.

Any entity that generates market risks must request the renewal or extension of its limits from the HSBC France Market Risk Committee every year.

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

Market risk assessment tools

Value at Risk

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

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

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

33 Risk management *(continued)*

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

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

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

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

The one-day VaR on market exposures, including both trading and accrual portfolios, amounted to:

(in millions of euros)	*One-day VaR without Add-On perimeter*	*Add-On VaR*
At 31 December 2009	**15.08**	**6.9**
At 31 December 2008	21.15	7.0

	One-day VaR without Add-On perimeter			*Add-On VaR*		
(in millions of euros)	*Average*	*Minimum*	*Maximum*	*Average*	*Minimum*	*Maximum*
2009	**18.76**	**12.55**	**26.76**	**6.7**	**5.8**	**7.9**
2008	11.49	6.1	28.56	4.8	3.3	7.9

Average VaR has continued to rise significantly. This is due to the continuing inclusion in the VaR calculation of scenarios corresponding to the high level of volatility observed since the financial crisis began.

As of 23 November 2009, nearly all equity derivatives positions and therefore new transactions have been recorded in the HSBC Bank plc Paris Branch balance sheet and no longer in HSBC Financial Products (France), a subsidiary of HSBC France. The above tables are therefore not like-for-like.

Back testing

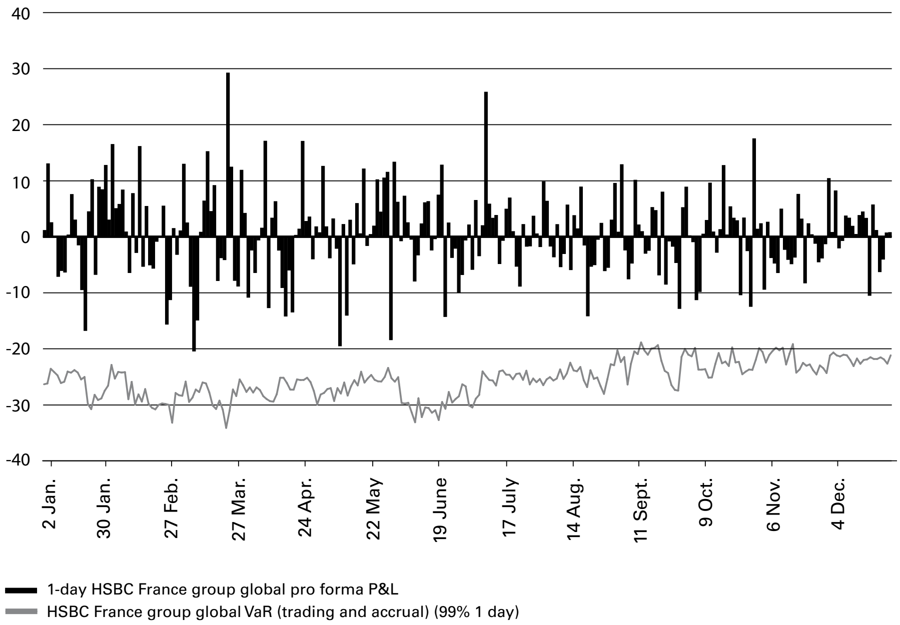
The model is back-tested by taking 99 per cent, one-day VaR figures and comparing them with daily pro forma results determined from changes in market prices assuming constant positions. Back-testing is carried out on a D+2 basis by business area and for all of the HSBC France group's market positions.

It allows the model to be validated, ensuring that the recorded result, in absolute terms, is lower than the calculated one-day VaR in 99 per cent of cases.

Consolidated financial statements (continued)

33 Risk management *(continued)*

Pro forma back testing January 2009–December 2009
(in millions of euros)



In 2009, HSBC France did not record any back testing breaches (10 breaches in 2008).

Fair value and price verification control

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

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

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

Trading

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

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

HSBC France's policy on hedging is to manage economic risk in the most appropriate way without regard as to whether hedge accounting is available, within limits regarding the potential volatility of reported earnings. Trading VaR is further analysed below by risk type, by positions taken with trading intent and by positions taken without trading intent (not significant for HSBC France).

33 Risk management *(continued)*

Total trading VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2009	**0.10**	**15.44**	**0.43** [1]	**15.51**
At 31 December 2008	0.27	17.04	6.53	21.20
Average				
2009	**0.30**	**19.51**	**3.86**	**18.60**
2008	0.33	12.97	4.07	11.75
Minimum				
2009	**0.03**	**12.90**	**0.30** [1]	**12.89**
2008	0.09	6.79	1.58	5.96
Maximum				
2009	**0.93**	**28.38**	**7.95**	**26.96**
2008	0.75	27.17	7.22	28.02

Positions taken with trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2009	**0.10**	**15.08**	**0.43** [1]	**13.92**
At 31 December 2008	0.27	16.69	6.53	19.97
Average				
2009	**0.30**	**19.43**	**3.86**	**17.19**
2008	0.33	12.16	4.07	9.65
Minimum				
2009	**0.03**	**13.23**	**0.30** [1]	**11.99**
2008	0.09	5.45	1.58	5.96
Maximum				
2009	**0.93**	**35.77**	**7.95**	**24.18**
2008	0.75	27.30	7.22	23.79

1 *As of 23 November 2009, nearly all equity derivatives positions and therefore new transactions have been recorded in the HSBC Bank plc Paris Branch balance sheet and no longer in HSBC Financial Products (France), a subsidiary of HSBC France. The above tables are therefore not like-for-like.*

Positions taken without trading intent – VaR by risk type

(in millions of euros)	*Foreign exchange*	*Interest rate trading*	*Equity*	*Total*
At 31 December 2009	**–**	**1.59**	**–**	**1.59**
At 31 December 2008	–	1.23	–	1.23
Average				
2009	**–**	**1.42**	**–**	**1.42**
2008	–	2.12	–	2.11
Minimum				
2009	**–**	**0.91**	**–**	**0.91**
2008	–	0.94	–	0.94
Maximum				
2009	**–**	**2.78**	**–**	**2.78**
2008	–	4.23	–	4.23

Consolidated financial statements (continued)

33 Risk management *(continued)*

Sensitivity analysis

At 31 December 2009, HSBC France Global Markets was exposed in particular to interest rate risk: directional, curve and spread (*i.e.* relative difference) for the various swaps and securities curves, denominated in euros, in the Eurozone, whether these notes are from sovereign government issuers in the Eurozone, supranational issuers, government agencies or issuers of covered bonds. Among all of these sensitivities, the main exposures relate to total net sensitivity to the interest rate spread between all securities and swaps in euros, as well as sensitivities to the respective curves of European government notes.

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

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

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

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

An aggregate representation is HSBC France Global Markets' 1-day 99% VaR at 31 December 2009: USD -21.6 million.

HSBC France Global Markets is exposed to a marginal risk relating to residual equity markets following the transfer of the HSBC Financial Products (France) activity.

At 31 December 2009, HSBC France held in its non-trading portfolio a limited net exposure to the fixed income market with maturity of 1 year, and a limited debt securities position against interest rate swaps, with short maturity of less than 2 years.

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

Parallel shift up of one basis point of the rate curve would lead the value to move by EUR 93 thousand (increase in case of rate curve decrease and inversely in case of a rate curve increase).

Capital adequacy reporting

The internal model allows the daily calculation of Value at Risk for all positions. It has been approved by the French *Commission bancaire* for regulatory capital adequacy calculations. At 31 December 2009, it covered almost all market risks within HSBC France. Risks not covered by the internal model are measured using the standardised approach devised by the Bank of International Settlements and transposed into French law by CRBF regulation 95-02.

33 Risk management *(continued)*

Capital requirements with respect to market risks break down as follows (in millions of euros):

(in millions of euros)	**31 December 2009** *BIS*	**31 December 2009** *CAD*	31 December 2008 *BIS*	31 December 2008 *CAD*
Internal Model[1]:	**248.2**	**248.2**	364.1	364.1
Foreign exchange risk	**2.0**	**2.0**	4.5	4.5
General interest rate risk	**257.7**	**257.7**	321.7	321.7
General equities risk[2]	**33.6**	**33.6**	109.0	109.0
Netting effet	**(45.2)**	**(45.2)**	(71.1)	(71.1)
Standards methods:	**64.6**	**64.6**	69.8	69.8
Foreign exchange risk	**–**	**–**	–	–
General interest rate risk	**–**	**–**	–	–
Specific interest rate risk	**64.6**	**64.6**	69.8	69.8
General equities risk	**–**	**–**	–	–
Specific equities risk	**–**	**–**	–	–
Total	**312.8**	**312.8**	433.9	433.9

1 *Including the Add-On perimeter.*
2 *As of 23 November 2009, nearly all equity derivatives positions and therefore new transactions have been recorded in the HSBC Bank plc Paris Branch balance sheet and no longer in HSBC Financial Products (France), a subsidiary of HSBC France. The above tables are therefore not like-for-like.*

Structural interest rate management

The main objective of structural rate risk management is to suppress the sensitivity of the net interest income to market rates, by managing the fixed interest rate gap (imbalance between expected flows of current assets and expected cash flows of liabilities).

Structural interest rate risk arises mainly from the variations in differences between future returns on assets and future costs of liabilities stemming from variations in interest rates. Analysis of this risk is complex, owing to the necessity of making assumptions on such things as borrowers' options to pay off property loans early and depositors' behaviour with regard to balances that by contract are withdrawable on demand, as current accounts. When necessary, the observed characteristics different from contractual characteristics are evaluated to determine the actual underlying interest rate risk associated with the product. ALCO Balance Sheet regularly monitors all such behavioural assumptions and interest rate risk positions.

In order to manage this risk optimally, market risk in non-trading activities is measured and managed centrally by the Balance Sheet Financial Management Department (DGFB) which defines the rules to transfer this risk to Global Markets. The transfer of the net interest exposure to dedicated trading books managed by Global Markets is achieved by a series of internal deals (cash or swap) between the business units and these trading books.

The net exposure is managed through the use of derivatives to reverse the risk to the market.

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

Consolidated financial statements (continued)

33 Risk management *(continued)*

Structural foreign exchange exposure

Foreign exchange trading positions arising from banking operations are systematically transferred to the Trading Desk which manages exchange rate risk according to the limits set by ALCO Balance Sheet.

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

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

Analysis of Asset Backed Securities

The table above shows the group's market risk exposure to asset backed securities.

Asset Backed Securities	**31 December 2009**			
(in millions of euros)	***Gross principal*** [2]	***CDS gross protection*** [3]	***Net Principal exposure*** [4]	***Carrying amount*** [5]
– High grade [1]	**263**	**–**	**263**	**237**
– rated C to A	**24**	**–**	**24**	**21**
– not publicly rated	**19**	**–**	**19**	**17**
Total Asset Backed Securities	**306**	**–**	**306**	**275**

Asset Backed Securities	31 December 2008			
(in millions of euros)	*Gross principal* [2]	*CDS gross protection* [3]	*Net Principal exposure* [4]	*Carrying amount* [5]
– High grade [1]	401	–	401	350
– rated C to A	29	–	29	20
– not publicly rated	14	–	14	12
Total Asset Backed Securities	444	–	444	382

1 *High grade assets rated AA or AAA.*
2 *The gross principal is the redemption amount on maturity or, in the case of an amortising instrument, the sum of the future redemption amounts through the residual life of the security.*
3 *A CDS is a credit default swap. CDS gross protection is the gross principal of the underlying instruments that is protected by CDSs.*
4 *Net principal exposure is the gross principal amount of assets that are not protected by CDSs. It includes assets that benefit from monoline protection except where this protection is purchased with a CDS.*
5 *Carrying amount of the net principal exposure.*

33 Risk management *(continued)*

Asset Backed Securities	**31 December 2009**			31 December 2008		
(in millions of euros)	***Gross fair value movements other comprehensive income***[2]	***Reclassified from equity on impairment, disposal or payment***[3]	***AFS impairment***[4]	*Gross fair value movements other comprehensive income*[2]	*Reclassified from equity on impairment, disposal or payment*[3]	*AFS impairment*[4]
– High grade[1]	**36**	**5**	**–**	(47)	–	–
– rated C to A	**–**	**–**	**–**	(9)	–	–
– not publicly rated	**2**	**2**	**–**	(3)	–	–
Total Asset Backed Securities	**38**	**7**	**–**	(59)	–	–

1 *High grade assets rated AA or AAA.*
2 *Fair value gains and losses on the net principal exposure recognised in equity at the end of the year as a result of the changes in fair value of available for sale assets.*
3 *Reclassification in respect of AFS assets, includes impairment losses recognised at the end of the year as a result of sale, disposal, accretion or payment.*
4 *Impairment losses recognised in the income statement in respect of the net principal amount (see footnote 4 on previous page) of available-for-sale.*

Risk cover and regulatory ratios

Large exposures

The HSBC France group complies with the French *Commission Bancaire*'s rules which require the following:

– exposure to a group of clients deemed to have the same beneficial owner is limited to 20 per cent of net capital if the beneficial owner is investment grade and 15 per cent if non-investment grade;

– the aggregate of individual exposures exceeding 10 per cent of net capital is limited to eight times net capital. 14 groups had individual exposures exceeding 10 per cent of net capital at 31 December 2009.

Loan loss provisions

At 31 December 2009, loan impairment represented 46.53 per cent of the HSBC France group's total doubtful and non-performing exposure.

Liquidity ratio

The HSBC France group's regulatory ratios reflect its good liquidity risk cover. The regulatory liquidity ratio, which measures the potential one-month liquidity gap averaged 115 per cent in 2009 on an individual basis.

33 Risk management *(continued)*

Basel II international solvency ratio

The HSBC France group's Basel II international solvency ratio was 12.2 per cent at 31 December 2009, compared with a minimum requirement of 8 per cent. The group's Tier 1 capital ratio was 12.2 per cent compared with a minimum requirement of 4 per cent.

Under the Basel II definitions, total HSBC France group capital amounted to EUR 4.3 billion at 31 December 2009, of which EUR 4.3 billion was Tier 1 capital.

The corresponding risk-weighted assets broke down as follows:

(in billions of euros)	**31 December 2009**	31 December 2008
Credit risks	**27.7**	38.3
Market risks	**3.9**	5.5
Operational risks	**4.0**	4.0
Total	**35.6**	47.8

Commentaries related to the risk-weighted assets are disclosed in the risk management section in page 59.

Special Purpose Entities

The group enters into certain transactions with customers in the ordinary course of business which involve the establishment of Special Purpose Entities (SPEs) some of which have been included in the group's consolidated balance sheet.

Where transactions involve the use of SPEs these are authorised centrally upon establishment to ensure appropriate purpose and governance. The activities of SPEs administered by the group are closely monitored by Senior Management. The use of SPEs is not a significant part of the group's activities and the group is not reliant on the use of SPEs for any material part of its business operations or profitability.

Vehicles sponsored by the group

The group re-assesses the required consolidation accounting tests whenever there is a change in the substance of a relationship between the group and an SPE, for example, when there is a change in the group's involvement or in the governing rules, contractual arrangements or capital structure of the SPE.

Money market funds

The group has established and manages a number of money market funds which provide customers with tailored investment opportunities. These funds have narrow and well-defined objectives and typically the group does not aim to have any holdings in the SPEs large enough to represent the majority of the risks and rewards of ownership.

Since July 2007, French dynamic money market funds have experienced high redemption requests caused by the investors' lack of confidence in funds which could contain exposure to subprime assets.

From the third quarter of 2007, the group acquired underlying assets and shares in two of its dynamic money market funds, HSBC EOTOP and HSBC Duoblig; no additional shares were acquired by the group during 2008 and 2009. As a result of continued redemptions by unit holders, the group's holding in the two funds increased to a level where it obtained the majority of the risks and rewards of ownership during the first quarter of 2008. These funds were consolidated by the group at 31 December 2008 and 2009.

Asset finance transactions

HSBC France's Asset and Structured Finance (ASF) business specialises in leasing and arranging finance for aircraft and other physical assets, which it is customary to ring-fence through the use of SPEs, and in structured loans and deposits where SPEs introduce cost efficiencies. HSBC France consolidates these SPEs where the substance of the relationship indicates that HSBC France controls the SPE.

34 Contingent liabilities and contractual commitments

a *Contingent liabilities and commitments*

(in millions of euros)	31 December 2009	31 December 2008
Contract amounts		
Contingent liabilities		
Acceptances and endorsements	**–**	–
Guarantees and assets pledged as collateral security	**6,810**	7,117
Other contingent liabilities	**35**	109
	6,845	7,226
Commitments		
Documentary credits and short-term trade-related transactions	**302**	387
Undrawn note issuing and revolving underwriting facilities	**–**	–
Undrawn formal stand-by facilities, credit lines and other commitments to lend:		
– 1 year and under	**5,201**	5,138
– over 1 year	**12,124**	11,140
	17,627	16,665

The above table discloses the nominal principal amounts of third-party off-balance sheet transactions. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

The total of the nominal principal amounts is not representative of future liquidity requirements.

b *Guarantees*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the group. These guarantees are generally provided in the normal course of the Group's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the group could be required to make at 31 December were as follows:

(in millions of euros)	At 31 December 2009	At 31 December 2008
Guarantee type		
Financial guarantees [1]	**2**	896
Stand-by letters of credit which are financial guarantees [2]	**2,013**	878
Other direct credit substitutes [3]	**396**	261
Performance bonds [4]	**1,456**	1,544
Bid bonds [4]	**28**	56
Stand-by letters of credit related to particular transactions [4]	**–**	–
Other transaction-related guarantees [4, 5]	**2,915**	3,482
Other items	**35**	109
Total	**6,845**	7,226

1 *Financial guarantees include undertakings to fulfil the obligations of customers or group entities should the obligated party fail to do so. The inter-company financial guarantees include a specific guarantee related to debt issued by the Group for the benefit of other entities of the group and with respect to regulatory requirements.*
2 *Stand-by letters of credit which are financial guarantees are irrevocable obligations on the part of HSBC France to pay a third party when a customer fails to meet a commitment.*
3 *Other direct credit substitutes include re-insurance letters of credit and trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment.*
4 *Performance bonds, bid bonds and other transaction-related guarantees are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.*
5 *Including guarantees by the group in favour of other HSBC Group entities for EUR 257 million in 2009 (2008: EUR 1,185 million).*

Consolidated financial statements (continued)

34 Contingent liabilities and contractual commitments *(continued)*

The amounts disclosed in the above table reflect the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the group's overall credit risk management policies and procedures.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to the group's annual credit review process.

When the group gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

Provisions in respect of the group's obligations under outstanding guarantees

(in millions of euros)	**2009**	2008
Acceptances and endorsements	**–**	–
Other items	**2**	3

35 Lease commitments

Finance lease commitments

(in millions of euros)	**2009**			2008		
	Total future minimum payments	***Interest charges***	***Present value***	*Total future minimum payments*	*Interest charges*	*Present value*
No later than one year	**–**	**–**	**–**	–	–	–
Later than one year and no later than five years	**–**	**–**	**–**	–	–	–
Later than five years	**–**	**–**	**–**	–	–	–
	–	**–**	**–**	–	–	–

There were no future minimum sublease payments expected to be received under non-cancellable subleases.

Finance lease receivables

(in millions of euros)	**2009**			2008		
	Total future minimum payments	***Interest charges***	***Present value***	*Total future minimum payments*	*Interest charges*	*Present value*
Lease receivables:						
– no later than one year	**353**	**(34)**	**319**	360	(49)	311
– later than one year and no later than five years	**1,454**	**(226)**	**1,228**	1,489	(280)	1,208
– later than five years	**1,376**	**(363)**	**1,012**	1,603	(403)	1,200
	3,183	**(623)**	**2,559**	3,452	(732)	2,719

At 31 December 2009, unguaranteed residual values of EUR 117 million (2008: EUR 113 million) had been accrued, and there was no accumulated allowance for uncollectible minimum lease payments receivable.

The group leases a variety of different assets to third parties under operating and finance lease arrangements, including property, aircraft and general plant and machinery.

36 Litigation

As at 31 December 2009, there was no litigation or arbitration proceedings likely to have a material impact on HSBC France's financial position, its activities and results, or consequently on the HSBC France group.

37 Related party transactions

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in the UK.

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

a *Transactions, arrangements and agreements involving Directors and others*

The table below sets out transactions which fall to be disclosed under IAS 24 "Related Party Disclosures" between HSBC France and the Key Management Personnel of HSBC France, and their connected persons or controlled companies.

	2009			2008		
(in thousands of euros)	***Number of persons***	***Highest balance during the year*** [1]	***Balance at 31 December*** [1]	*Number of persons*	*Highest balance during the year* [1]	*Balance at 31 December* [1]
Loans	**5**	**2,385**	**1,572**	6	11,928	10,785
Credit cards	**5**	**78**	**32**	6	73	39
Guarantees	**5**	**325**	**–**	6	342	325

1 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of the group under IAS 24 is disclosed as follows:

(in thousands of euros)	**2009**	2008
Short-term employee benefits	**178**	176
Post-employment benefits	**168**	197
Long-term benefits	**1**	1
Termination fees	**165**	72
Share-based payment	**4,344**	4,198
	4,856	4,644

Directors' and other Key Management Personnel shareholdings and options

	31 December 2009	31 December 2008
Number of share options from equity participation plans held by Directors and other key management personnel (and their connected persons)	**2,452,274** [1,3]	2,254,811
Number of shares held by Directors and other key management personnel (and their connected persons)	**2,133,439** [1,2,3]	1,339,338 [2]

1 *The number of Directors and other key management personnel was reduced to five persons compared to six persons at the end of 2008.*
2 *The HSBC shares held through the mutual fund invested in HSBC shares and forming part of the group employee share ownership plan are not included.*
3 *2009 figures were adjusted for HSBC Holdings capital increase which took place in March/April 2009.*

The Annual Report and Accounts also includes a detailed description of Directors' remuneration (see pages 26 to 31 and 191 to 197).

Consolidated financial statements (continued)

37 Related party transactions *(continued)*

b *Transactions with other related parties*

Transactions with other related parties of the Group

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC France and fellow subsidiaries of HSBC Holdings plc.

(in millions of euros)	**31 December 2009**	31 December 2008
Assets		
Trading assets	**5,047**	3,235
Derivatives	**18,120**	36,434
Loans and advances to banks	**7,638**	3,799
Loans and advances to customers	**311**	709
Financial investments	**170**	194
Other assets [1]	**2,698**	2,479
Prepayments and accrued income	**64**	91
Financial asset designated at fair value	**4**	4
Liabilities		
Deposits by banks	**8,459**	19,723
Customer accounts	**136**	153
Trading liabilities	**1,319**	282
Derivatives	**20,262**	35,224
Other liabilities [1]	**2,578**	3,864
Accruals and deferred income	**39**	71
Subordinated liabilities	**150**	150
Income Statement		
Interest income [2]	**150**	539
Interest expense [2]	**152**	972
Fee income	**95**	141
Fee expense	**111**	131
Gains less losses from financial investments [3]	**8**	–
Other operating income	**8**	2
Dividend income	**3**	6
General and administrative expenses	**52**	59

1 *Including inter company of HSBC Financial Products (France) reported in the lines assets and liabilities classified as held for sale.*
2 *Including interests on trading assets and trading liabilities for EUR 39 million in 2009 (2008: EUR 166 million).*
3 *Gain on sale of Algerian branch to HSBC Bank Middle East Ltd.*

38 Audit fees

Auditors' fees paid in 2009 and 2008 within the HSBC France group

(in thousands of euros excluding VAT)	KPMG				BDO France – Léger & Associés				Others			
	Amount		*%*		*Amount*		*%*		*Amount*		*%*	
	2009	*2008*	***2009***	*2008*	***2009***	*2008*	***2009***	*2008*	***2009***	*2008*	***2009***	*2008*
Audit												
Statutory audit, certification, examination of Parent company and consolidated accounts	**1,825**	1,512	**78%**	67%	**388**	335	**100%**	100%	**233**	305	**100%**	100%
– issuer	**948**	540	**–**	–	**339**	268	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**877**	972	**–**	–	**49**	67	**–**	–	**233**	305	**–**	–
Related assignments	**518**	753	**22%**	33%	**–**	–	**–**	–	**–**	–	**–**	–
– issuer	**518**	701	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
– fully-consolidated subsidiaries	**–**	52	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**2,343**	2,265	**100%**	100%	**388**	335	**100%**	100%	**233**	305	**100%**	100%
Other services												
Legal, tax, social	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Other (if > 10 per cent of audit fees)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Sub-total	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**2,343**	2,265	**100%**	100%	**388**	335	**100%**	100%	**233**	305	**100%**	100%

39 Events after the balance sheet date

There have been no material events after the balance sheet date which would require disclosure or adjustment to the 31 December 2009 financial statements.

Consolidated financial statements (continued)

Statutory Auditors' report on the consolidated financial statements

This is a free translation into English of the statutory auditor's report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures. This report also includes information relating to the specific verification of information given in the group's management report. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended 31 December 2009

To the shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended 31 December 2009, on:

– the audit of the accompanying consolidated financial statements of HSBC France;

– the justification of our assessments;

– the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I – Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the group as at 31 December 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II – Justification of our assessments

Accounting estimates for the purpose of preparing the financial statements for the year ended 31 December 2009 have been made in an economic context and market conditions still deteriorated. It is in this context and in accordance with article L. 823-9 of the French commercial code ("*Code de commerce*") relating to the justification of our assessments that we bring to your attention the following matters.

Depreciations

Your company accounts for depreciations to cover the credit risks inherent to its activities. We have reviewed the procedures implemented by the management to identify and assess these risks and to determine the amount of impairment it considers necessary, and we have verified that these accounting estimates were based on documented methods that comply with the principles described in the Note 2 g to the consolidated financial statements.

Valuation of financial instruments

As mentioned in Notes 2 d and 28 to the consolidated financial statements, your company uses internal models to assess the fair value of certain financial instruments that are not traded on an active market. We have reviewed the control procedures relating to the control of models, to the determination of the parameters used as well as to the assessment of associated risks.

Impairment of Available-for-sale securities

As mentioned in Note 2 j to the consolidated financial statement, your company accounts for impairments of available-for-sale securities whether there is any objective evidence of a significant or prolonged decline in fair value of these investments below its cost. We have reviewed the valuations and have verified the appropriateness of the principles applied by your company, as well as the accounting estimates.

Impact of changes in its own credit risk with respect to the valuation of certain financial liabilities measured at fair value through profit and loss

As mentioned in Notes 21, 27 and 28 to the consolidated financial statements, your company assessed the impact of changes in its own credit risk with respect to the valuation of certain financial liabilities measured at fair value through profit and loss. We have assessed the appropriateness of the parameters used for this purpose.

Other estimates

For the purpose of preparing the financial statements for the year ended 31 December 2009, your company has made other accounting estimates, related in particular to the assessment of goodwills, pension plans and other post-employment benefits and reserves for legal risks. Taking into account the specific context of the financial crisis, we have reviewed the processes implemented by management and the underlying assumptions and valuation parameters, and assessed whether these accounting estimates are based on documented procedures consistent with the accounting policies disclosed in Note 2 to the consolidated financial statements.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III – Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris-La Défense and Paris, on 26 April 2010

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

BDO France – Léger & Associés
Michel Léger
Partner

Information on the parent company financial statements

The annual financial statements of HSBC France, as at 31 December 2009, were audited and gave rise to an unqualified opinion without any remark.

The annual financial statements of HSBC France, as at 31 December 2008, were audited and gave rise to an unqualified opinion without any remark.

The annual financial statements of HSBC France, as at 31 December 2007, were audited and gave rise to an unqualified opinion with emphasis of matter regarding the first application of CNC notice 2006-02 on accounting for home purchase savings plans and accounts.

Balance sheets 2009-2008-2007

ASSETS

(in thousands of euros)	**2009**	2008	2007
Cash and balances at central banks	**573,033**	2,118,949	4,292,739
Treasury bills and other eligible bills	**40,186,866**	42,006,901	31,796,857
Loans and advances to banks	**52,644,706**	43,805,810	43,284,929
Loans and advances to customers	**72,353,911**	67,259,125	61,214,168
Debt securities	**12,860,614**	11,197,491	7,524,035
Equity shares	**414,230**	474,447	520,254
Other participating interests and long-term securities	**454,496**	325,848	1,049,640
Interests in related parties	**1,860,290**	1,946,963	2,743,877
Intangible fixed assets	**160,934**	165,063	47,349
Tangible fixed assets	**339,359**	348,865	323,783
Other assets	**18,918,646**	24,072,588	10,084,356
Prepayments and accrued income	**61,113,880**	78,244,443	31,489,894
TOTAL ASSETS	**261,880,965**	271,966,493	194,371,881
Memorandum items			
Financing commitments	**19,300,700**	18,296,348	19,552,694
Guarantees and endorsements	**6,935,924**	7,257,607	6,524,504
Securities commitments (other commitments received)	**3,657,493**	1,713,723	2,621,065

LIABILITIES

	2009		2008	2007
(in thousands of euros)	Before appropriation	After appropriation[1]	After appropriation	After appropriation
Deposits by banks	**60,218,886**	**60,218,886**	55,176,600	59,421,892
Customer accounts	**73,728,078**	**73,728,079**	64,739,927	41,969,604
Debt securities in issue	**20,392,440**	**20,392,440**	24,252,179	24,993,802
Other liabilities	**40,319,914**	**40,319,914**	40,474,966	31,170,756
Accruals and deferred income	**62,224,049**	**62,224,049**	82,134,683	32,226,638
Provisions for liabilities and charges	**388,914**	**388,914**	417,917	370,846
Reserve for general banking risks	**–**	**–**	41	–
Subordinated liabilities	**181,556**	**181,556**	221,435	272,843
Called up share capital	**337,189**	**337,189**	337,189	379,819
Share premium account	**16,139**	**16,139**	16,139	1,190,817
Reserves	**1,047,926**	**1,047,926**	1,047,990	1,210,107
Special tax-allowable reserves	**37,377**	**37,377**	38,766	41,699
Retained earnings	**3,108,661**	**2,988,496**	3,108,661	1,123,058
Net profit of the year	**550,167**	**–**	–	–
Interim dividend	**(670,332)**	**–**	–	–
TOTAL LIABILITIES	**261,880,965**	**261,880,965**	271,966,493	194,371,881
Memorandum items				
Financing commitments	**2,376,475**	**2,376,475**	2,735,255	509,162
Guarantees and endorsements	**7,703,371**	**7,703,371**	6,326,614	6,604,895
Securities commitments	**3,634,623**	**3,634,623**	1,968,819	2,796,874

1 *Proposed appropriation.*

Profit and loss accounts 2009-2008-2007

(in thousands of euros)	31.12.2009	31.12.2008	31.12.2007
Income/(Expenses)			
Interest and similar income	**2,262,459**	5,116,279	4,166,094
Interest and similar expenses	**(1,719,830)**	(5,257,708)	(4,228,756)
Income from equity shares	**119,557**	281,167	368,341
Fees and commissions received	**816,298**	703,301	611,619
Fees and commissions paid	**(212,538)**	(185,791)	(176,979)
Dealing profits	**1,028,809**	947,513	794,416
Gains or losses on available-for-sale securities	**57,396**	(84,329)	1,254
Other operating income	**19,793**	38,107	13,905
Other operating expenses	**(22,576)**	(32,299)	(10,464)
Net operating income	**2,349,368**	1,526,240	1,539,430
General operating expenses	**(1,338,165)**	(1,321,725)	(1,128,916)
Depreciation and amortisation	**(59,496)**	(57,467)	(51,148)
Operating profit before provisions	**951,707**	147,048	359,366
Provisions for non performing debts	**(171,562)**	(108,803)	(6,623)
Operating profit after provisions	**780,145**	38,245	352,743
Gains or losses on disposals on fixed asset investments	**(89,638)**	1,787,455	956,720
Profit on ordinary activities before tax	**690,507**	1,825,700	1,309,463
Exceptional items	**8,445**	(6)	–
Income tax	**(150,181)**	156,711	49,648
Net recovery from regulatory provisions	**1,396**	3,198	(1,651)
Net attributable profit	**550,167**	1,985,603	1,357,460

Statement of reported net profit and movements in shareholders' funds and the reserve for general banking risks

(Recommendation of the Stock Exchange Commission – Bulletin no. 79 of February 1979)

(in thousands of euros)	31.12.2009	31.12.2008	31.12.2007
Net profit for the year			
– total	**550,166.7**	1,985,603.1	1,357,459.3
– per share (in euros)[1, 2]	**8.16**	29.44	17.87
Movements in shareholders' funds and the reserve for general banking risks (after appropriation of 2008 and 2007 net profit and proposed appropriation for 2009 net profit)			
– change in revaluation difference	**(58.3)**	(198.0)	(33.0)
– transfer to reserves and change in retained earnings	–	(161,921.0)	–
– exceptional dividend paid from free reserves	–	–	(495,761.0)
– change in revaluation reserve and special tax-allowable reserves	**(1,395.6)**	(2,931.0)	1,653.0
– new shares issued upon exercise of stock options	–	17,244.0	21,913.0
– merger premium[3]	–	3,512.0	5,936.0
– transition adjustment in respect of accounting for PEL and CEL provisions	–	–	(3,506.0)
– capital increase	–	14.0	–
– reduction of capital	–	(43,750.0)	–
– reduction of share premium	–	(1,194,328.0)	–
Change in shareholders' funds	**(1,453.9)**	(1,382,358.0)	(469,798.0)
– per share (in euros)[1, 2]	**(0.0)**	(20.5)	(6.2)
Proposed dividend			
– gross	**670,331.9**	–	230,618.9
– per share (in euros)[1, 2]	**9.94**	–	3.04

1 *Number of shares outstanding at year end (excluding own shares held): 67,437,820 in 2009 and 2008; 75,963,895 in 2007.*
2 *Based on the weighted average number of shares outstanding (excluding own shares held), dividend per share amounted to EUR 9.94 in 2009 (67,437,820 shares), EUR 0 in 2008 (75,020,854 shares) and EUR 3.05 in 2007 (75,698,434 shares).*
3 *Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC Picardie and HSBC UBP in 2008 and of HSBC Asset Management Holding, Finanpar 17, Compagnie de Gestion de Patrimoine du CCF and Compagnie Financière des Iles du Rhône in 2007.*

Information on the parent company financial statements (continued)

Appropriation of net profit

(Article 295 of decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of euros)	31.12.2009	31.12.2008	31.12.2007
Sums available for distribution			
– retained earnings	**3,108,661**	1,123,058	–
– transition adjustment in respect of accounting for PEL and CEL provisions	**–**	–	(3,506)[1]
– exit tax	**–**	–	–
– discounting cash flows impact	**–**	–	–
Subtotal	**3,108,661**	1,123,058	(3,506)
Net profit for the year	**550,167**	1,985,603	1,357,460
TOTAL (A)	**3,658,828**	3,108,661	1,353,954
Appropriation of income			
– dividends	**670,332**	–	230,619
– legal reserve	**–**	–	277
– free reserve	**–**	–	–
TOTAL (B)	**670,332**	–	230,896
Retained earnings (A - B)	**2,988,496**	3,108,661	1,123,058

1 *First accounting of impairments on PEL and CEL.*

Information on supplier payable amounts schedule

(Articles L. 441-6-1 and D. 441-4 of the French Commercial Code and Article L. 24-II of the Economy Modernisation Act)

Amounts payable to suppliers of HSBC France were EUR 46 million, of which 67.5 per cent were due within 30 days and 30 per cent were overdue. Except specific agreements with suppliers, payments are made within 45 days of invoice date.

Five-year highlights

(Articles 133, 148 of decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of euros)	2009	2008	2007	2006	2005
Share capital at year end					
Called up share capital[1]	**337,189**	337,189	379,819	378,415	376,190
Number of issued shares	**67,437,820**	67,437,820	75,963,895	75,683,045	75,237,930
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Gross operating income (excluding compensation of financial instruments)	**44,033,730**	121,969,321	150,090,552	30,470,306	32,661,166
Gross operating income (after compensation of financial instruments)	**–**	–	–	–	–
Profit before tax, depreciation and provisions	**949,898**	2,415,956	1,347,356	515,192	1,044,550
Profit after tax, depreciation and provisions	**550,167**	1,985,603	1,357,460	434,366	935,669
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**11.9**	37.7	18.3	7.2	14.3
Profit after tax, depreciation and provisions	**8.2**	29.4	17.7	5.7	12.4
Dividend paid per ordinary share, eligible as of 1 January	**9.94**	–	3.04	8.10	5.19
Employees (France)					
Number of employees[2]	**9,731**	10,218	8,789	8,500	7,749
Average number of employees (excluding employees available)[3]	**9,872**	8,940	8,103	7,763	7,197
Salaries and wages	**564,619**	459,067	455,722	389,163	341,642
Employee benefits	**252,768**	231,279	206,607	167,936	149,569
Payroll and other taxes	**63,502**	65,481	46,694	49,134	43,680
Incentive schemes and/or employee profit-sharing plan[4]	**17,695**	27,610	25,728	21,380	15,883

1 *Capital increases pursuant to exercice of share options and, for 2008, capital reduction of EUR 43,750,000, increase of EUR 13,855 due to the merger, increase of EUR 1,105,770 due to the exercise of share options.*
2 *Banking status' employees, registered as at 31 December of each year.*
3 *Of which 6,067 executives and 3,805 non-executives in 2009; of which 5,462 executives and 3,478 non-executives in 2008; of which 4,894 executives and 3,209 non-executives in 2007; of which 4,501 executives and 3,262 non-executives in 2006; of which 4,113 executives and 3,084 non-executives in 2005.*
4 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2009 (excluding trading securities)

Held-to maturity, available-for-sale and portfolio activity securities

(in thousands of euros)

A – Held-to-maturity securities	**226,182**
Debt securities	**226,182**
Treasury bills and other eligible bills	–
Other public sector securities	–
Money market instruments	–
Negotiable certificates of deposit	–
Negotiable medium-term notes	–
Bonds and similar	225,869
Accrued interest	313
B – Available-for-sale and portfolio activity securities	**4,357,696**
Debt securities	**3,943,466**
Treasury bills and other eligible bills	400,663
Other public sector securities	1,589,802
Money market instruments	–
Commercial paper	–
Negotiable certificates of deposit	19,451
Negotiable medium-term notes	–
Asset-backed securities	124,192
Bonds and similar	1,752,610
Negotiable medium-term notes issued by banks	–
Accrued interest	56,748
Equity shares	**414,230**
Equity shares and similar	3,266
Mutual fund units	410,964
TOTAL HELD-TO-MATURITY, AVAILABLE-FOR-SALE AND PORTFOLIO ACTIVITY SECURITIES	**4,583,878**

Interests in related parties, other participating interests and long-term securities

(in thousands of euros)

A – Other participating interests and long-term securities	**454,496**
Securities listed on a recognised French exchange	1,847
Unlisted French securities	452,513
Foreign securities listed on a recognised French exchange	–
Foreign securities listed elsewhere	68
Unlisted foreign securities	–
Accrued income	68
B – Interests in related parties	**1,860,290**
Listed French securities	–
Unlisted French securities	1,827,371
Listed foreign securities	–
Unlisted foreign securities	32,919
Accrued income	–
TOTAL INTERESTS IN RELATED PARTIES, OTHER PARTICIPATING INTERESTS AND LONG-TERM SECURITIES	**2,314,786**

Information on the parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2009

(Articles 247 and 295 of decree no. 67-236 of 23 March 1967 on commercial companies)

In accordance with the CNC opinion (*Avis* n°2009-11) for the application of Article L. 511-45 of the French Monetary and Financial Code, HSBC France does not hold direct or indirect investments in non cooperative countries or territories.

(in thousands of currency units)	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Companies whose book value at cost exceeds 1% of HSBC France's share capital				
1 – Subsidiaries (over 50%)				
HSBC Covered Bonds (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR28,050	EUR271	100.00
HSBC Factoring (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR3,800	EUR7,268	100.00
COPARI Société de Constructions et de Participations Immobilières 184, avenue Frédéric & Irène Joliot-Curie – 92000 Nanterre (France)	Real estate	EUR50	EUR1,087	99.96
Société Française et Suisse 64, rue Galilée – 75008 Paris (France)	Investment company	EUR599	EUR(528)	100.00
FDM 6 39, rue Bassano – 75008 Paris (France)	Investment company	EUR139,052	EUR2,060	100.00
SAPC UFIPRO Recouvrement 186, avenue Frédéric & Irène Joliot-Curie – 92000 Nanterre (France)	Financial company	EUR7,619	EUR1,073	99.98
HSBC Epargne Entreprise 15, rue Vernet – 75008 Paris (France)	Financial company	EUR16,000	EUR72,487	100.00
HSBC Global Asset Management (France) 4, place de la Pyramide – La Défense 9 92800 Puteaux (France)	Investment company	EUR6,460	EUR68,933	92.11
HSBC Securities (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR12,626	EUR180,298	100.00
Sinopia Asset Management 4, place de la Pyramide – La Défense 9 92800 Puteaux (France)	Financial company	EUR3,387	EUR437	100.00
HSBC Private Bank France 103, avenue des Champs-Elysées – 75008 Paris (France)	Bank	EUR43,038	EUR65,553	100.00
Nobel 1, avenue Franklin Roosevelt – 75008 Paris (France)	Investment company	EUR128,468	EUR196,713	100.00
SAF Palissandre 64, rue Galilée – 75008 Paris (France)	Financial company	EUR500,037	EUR15,371	100.00

1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held		Loans and advances granted by HSBC France [1]	Guarantees given by HSBC France [1]	Prior-year sales [2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR28,039	EUR28,039	–	–	EUR19	EUR(346)	–	–
EUR5,236	EUR5,236	–	–	EUR15,079	EUR943	–	–
EUR36,370	EUR1,136	–	–	EUR0	EUR57	–	–
EUR60,384	EUR10,914	–	–	EUR0	EUR10,871	–	–
EUR128,916	EUR128,916	_	_	EUR12,087	EUR994	_	_
EUR16,260	EUR8,693	_	_	EUR0	EUR170	EUR265	_
EUR15,148	EUR15,148	_	_	EUR11,005	EUR(6,030)	_	_
EUR72,146	EUR72,146	_	_	EUR94,931	EUR25,714	EUR15,062	_
EUR55,988	EUR31,117	_	_	EUR1,089	EUR595	_	_
EUR51,483	EUR51,483	_	_	EUR23,955	EUR1,701	EUR12,737	_
EUR440,027	EUR260,405	_	_	EUR52,351	EUR931	EUR5,801	_
EUR207,648	EUR207,648	_	_	EUR7,313	EUR33,662	EUR16,059	_
EUR500,037	EUR500,037	_	_	_	EUR21,165	EUR14,300	_

Information on the parent company financial statements (continued)

Interests in subsidiaries and related parties at 31 December 2009 (continued)

(Articles 247 and 295 of decree no. 67-236 of 23 March 1967 on commercial companies)

(in thousands of currency units)	Business	Share capital	Reserves + retained earnings before appropriation of net profit	Ownership interest %
A – Companies whose book value at cost exceeds 1% of HSBC France's share capital				
1 – Subsidiaries (over 50%) (continued)				
HSBC Leasing (France) 39, rue Bassano – 75008 Paris (France)	Financial company	EUR281,760	EUR5,008	100.00
Société Financière et Mobilière 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR40,000	EUR58,171	100.00
HSBC Financial Products (France) 103, avenue des Champs-Elysées – 75008 Paris (France)	Financial company	EUR180,108	EUR(111,313)	93.02
Foncière Elysées S.A. 103, avenue des Champs-Elysées – 75008 Paris (France)	Holding company	EUR14,043	EUR19,434	99.99
Vernet Expansion 14, rue Vernet – 75008 Paris (France)	Investment company	EUR8,456	EUR(1,483)	100.00
Société Immobilière Malesherbes Anjou 103, avenue des Champs-Elysées – 75008 Paris (France)	Holding company	EUR13,412	EUR27,927	100.00
Charterhouse Management Services Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Investment company	GBP25,000	GBP24,212	100.00
HSBC Real Estate Leasing (France) 15, rue Vernet – 75008 Paris (France)	Financial company	EUR38,255	EUR17,329	80.98
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (United Kingdom)	Financial company	GBP5,000	GBP262	100.00
2 – Associated companies (10-50%)				
Cie Financière de la Porte Neuve 23, avenue de la Porte Neuve L2227 Luxembourg (Luxembourg)	Financial company	EUR182,218	EUR355	17.79
Lafarge Finance Limited Seaton House, 17 Seaton Place St Helier, Jersey (United Kingdom)	Financial company	GBP400,000	–	16.67
B – Aggregate data concerning companies whose book value at cost does not exceed 1% of HSBC France's share capital				
1 – Subsidiaries not included in paragraph 1				
a) French subsidiaries (aggregated)	–	–	–	–
b) Foreign subsidiaries (aggregated)	–	–	–	–
2 – Related party companies not included in paragraph 2				
a) French companies (aggregated)	–	–	–	–
b) Foreign companies (aggregated)	–	–	–	–

* *2008 figures (2009 figures not available).*
1 *Loans, advances and guarantees granted outside the framework of normal banking business.*
2 *Net operating income in the case of banks.*

Book value of securities held		Loans and advances granted by HSBC France[1]	Guarantees given by HSBC France[1]	Prior-year sales[2]	Prior-year net profit or loss	Dividends received by HSBC France in the last financial year	Comments
Cost	Net						
EUR281,756	EUR281,756	–	–	EUR(47,281)	EUR(29,511)	–	–
EUR84,053	EUR84,053	–	–	EUR3	EUR5	–	–
EUR179,212	EUR6,418	–	–	EUR(5,988)	EUR59,074	–	–
EUR44,476	EUR34,477	–	–	EUR897	EUR1,052	EUR9,118	–
EUR8,519	EUR8,519	–	–	EUR0	EUR59	–	–
EUR49,385	EUR49,385	–	–	EUR18,322	EUR3,871	–	–
EUR28,150	EUR28,150	–	–	GBP0	GBP(21,630)	GBP20,000	–
EUR37,190	EUR37,190	–	–	EUR121,176	EUR5,315	–	–
EUR4,769	EUR4,769	–	–	n/a	GBP14	–	–
EUR134,800	EUR134,800	_	_	EUR80,312	EUR40,045		
EUR225,200	EUR225,200	–	–	GBP21,162 *	GBP21,162*	GBP10,050*	–
EUR2,035	EUR2,029	–	–	–	–	EUR1,048	–
EUR1,820	EU1,819	–	–	–	–	–	–
EUR322	EUR4	–	–	–	–	–	–
EUR0	EUR0	–	–	–	–	–	–

Group structure and summary of business activities of HSBC France's principal subsidiaries

HSBC France group's main subsidiaries at 31 December 2009

Retail banking

Distribution	HSBC Factoring (France) (100%)

Global Banking and Markets

Real Estate	Foncière Elysées SA (100%) HSBC Real Estate Leasing (France) (100%) Immobilière Bauchart (100%) Réalimo Négociations (100%)
Structures financing and Global Banking	HSBC Covered Bonds (France) (100%) Société Financière et Mobilière (100%) HSBC Leasing (France) (100%) HSBC Leasing (Belgium) (100%) CCF Charterhouse GmbH (100%)
Markets	HSBC Securities (France) (100%) HSBC Financial Products (France) (100%) Financière d'Uzès (34%)
Other	HSBC Securities Services (France) (100%) [1]

Asset Management

France	HSBC Global Asset Management (France) (100%) Halbis Capital Management (France) (100%) Sinopia Asset Management (100%) Sinopia Financial Services (100%) Sinopia Société de Gestion (100%) HSBC Epargne Entreprise (100%) HSBC REIM (France) (100%)
Outside France	HSBC Global Asset Management (Switzerland) (50%) Sinopia Asset Management (Asia-Pacific) Ltd (100%) Sinopia Asset Management (UK) Ltd (100%)

– *Stated percentages indicate the group's percentage of control.*
– *The subsidiaries are classified in the area where they principally operate.*

1 *Disposal to CACEIS on 1 January 2010.*

Private Banking

France	HSBC Private Bank France (99.9%) HSBC Private Wealth Managers (99.9%)
Outside France	LGI (99.9%)

Subsidiaries & equity investments

France	Nobel (100%) Société Française Suisse (100%) Elysées Formation (100%) Malesherbes Anjou (100%) Excofina (100%)
Outside France	Charterhouse Management Services Ltd (100%)

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

Distribution

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage holding	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
HSBC Factoring (France)	**497,390**	370,423	**12,011**	11,068	**943**	1,244	**100.0**	100.0

HSBC Factoring (France) saw growth of 45% in 2009, with net turnover of EUR 2.3 billion, corresponding to the amount of factored receivables. Net operating income rose by 12% to EUR 15 million and the pre-tax contribution to group income came to EUR 1.4 million. HSBC Factoring (France) benefited from the following growth drivers in 2009:

- market share of 1.5% at end-2009. At end-December, HSBC Factoring controlled 1.8% of the factoring market in France;
- adapting the organisational structure of the internal Sales and Marketing department to that of the HSBC France network;
- maintaining the commercial acquisition policy targeting "large SME, MME and Corporate" clients, in particular continuing to develop Confidential products and extending the product range (Off-balance-sheet product, International products);
- adjusting prudential management following the various reforms introduced in 2008, with a more selective approach when entering into new business relations and tighter control of risks relating to clients in the portfolio;
- optimising the internal organisational structure and tools;
- improving profitability, with a target of reducing the cost efficiency ratio. At 31 December 2009, the cost efficiency ratio was 2 points lower than in 2008.

Global Banking and Markets

(in thousands of euros)

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
HSBC Securities (France)	**207,630**	262,477	**31,519**	30,924	**595**	(22,708)	**100.0**	100.0

The 20% fall in total assets is mainly due to the reduction in the balance of custodian accounts following the sale of HSBC Financial Products' Structured Equity Derivatives business in November 2009. Regulatory capital decreased by EUR 23 million due to the 2008 result taken to retained earnings for EUR 23 million (2008 result affected by write-downs of 100% of HSBC Financial Products shares representing an amount of EUR 23 million). Net income was positive at EUR 0.6 million. Net operating income fell from EUR 5.2 million in 2008 to EUR 2.7 million in 2009, with continuation of the decline in brokerage activities since 2008 following the withdrawal of regional banks from the HSBC Group, finalised definitively in December 2009. The decline in revenues also relates to the fall in ordinary account assets.

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
HSBC Financial Products (France)	**6,587,155**	21,872,894	**9,721**	68,795	**(59,074)**	(125,125)	**100.0**	100.0

Total assets decreased by around 70% between 2008 and 2009, mainly due to the transferral of the Equity business to HSBC Bank plc's balance sheet. This transfer was at a market price including IFRS Bid-Offer and Day 1 reserves, which were paid to HSBC Bank plc at the time of the transfer, resulting in the recognition of a loss of EUR 80 million in the company financial statements. After this transfer, the securities portfolio was reduced to just EUR 55 million at 31 December 2009 from EUR 2,021 million at end-2008. The mark-to-market value of the listed derivatives transferred also explains a reduction of EUR 3,551 million between 2008 and 2009. There was also a reduction of EUR 6,856 million in the mark-to-market value of OTC equity derivatives, which are still included in HSBC Financial Products' balance sheet pending a change in 2010. This significant reduction was due to market movements. 2009 saw a return to growth. Net operating income came to EUR 88 million at end 2009 compared with a loss of EUR 70 million at end 2008. This growth was mainly thanks to the excellent performance of the structured equity derivatives business, as well as a substantial reduction in the financing cost of transactions, which itself relates directly to the decline in Cash Equity activities over the year, as well as lower interest rates.

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
HSBC Leasing (France)	**1,982,724**	1,928,366	**257,257**	286,768	**(29,511)**	38,132	**100.0**	100.0

HSBC Leasing (France) specialises in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. In 2009, the company stepped up its activities in aircraft finance by financing two new assets representing a total of USD 105 million on behalf of an Asian airline. HSBC Leasing (France)'s portfolio totalled EUR 1.8 billion in 2009 compared with EUR 1.8 billion in 2008.

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
Foncière Elysées SA	**35,335**	43,550	**34,529**	42,596	**1,052**	8,962	**100.0**	100.0

Foncière Elysées generated a profit of EUR 1 million in 2009 compared with EUR 9 million in 2008. Unlike 2008, there were no exceptional items in 2009. 2009 income comprises entirely dividends received from subsidiaries.

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
HSBC Real Estate Leasing (France)	**866,306**	925,354	**60,900**	59,103	**5,315**	3,524	**100.0**	100.0

Despite a significant reduction in production compared with the previous year, at EUR 42 million compared with EUR 156 million in 2008, this real estate leasing specialist subsidiary achieved robust growth thanks to higher margins and lower general costs.

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage holding	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
HSBC Global Asset Management (France)	**145,398**	137,125	**102,434**	93,677	**25,714**	32,297	**100.0**	100.0

2009 was characterised by a sluggish first half of the year followed by a strong rebound in the second half, allowing for European investors to return to higher risk assets. Managed and distributed assets amounted to EUR 71 billion at 31 December 2009, an increase of 12% compared with end-2008. This growth was thanks to a positive price effect of EUR 6.9 billion and net inflows of EUR 585 million. Inflows into products in the "cross border" range and institutional mandates increased significantly over the year (EUR 5 billion), making up for the sharp decline in funds subject to French law (EUR 4.5 billion), in particular money market funds. 2009 saw increased commercial activity with major European institutional investors, in particular pension funds in France, the Benelux region and Italy, attracted by long-term bond and equity investments. Operations in Scandinavia were characterised by interest in emerging markets. The World Selection range was launched by the HSBC network in France in late 2009. HSBC Global Asset Management (France) continued in 2009 to invest in making its systems and processes more robust, as well as improving its risk control.

Halbis Capital Management (France)	**49,884**	48,245	**22,033**	23,531	**3,416**	4,363	**100.0**	100.0

2009 was characterised by considerable development under difficult market conditions, as well as the strong rebound in the financial markets from the second quarter of the year. Assets under management rose by 27% to EUR 14.7 billion at 31 December 2009, an increase of EUR 3 billion compared with end-2008, including inflows of EUR 1 billion and a price effect of EUR 2 billion. Eurozone bonds represented the majority of inflows, into both government bond funds and credit funds. Eurozone equities also saw a high level of inflows and the HGIF Euroland Equity fund reached its highest level of assets under management at EUR 1.1 billion. The HGIF Global Macro absolute return fund confirmed its success with inflows of close to EUR 200 million over the year. 2009 was an exceptional year in terms of both absolute and relative performance for the majority of Halbis's investment strategies. For example, the HGIF Euroland Equity fund achieved a performance of +37% (compared with +27.2% for its index), while the HSBC Mix Equilibre fund achieved +23% (+15.4% for its index) and the HSBC Revenus Trimestriels bond fund achieved +15.4% (+7.1% for its index). These funds are ranked in the top decile of their categories.

Sinopia Asset Management	**43,188**	56,137	**29,139**	40,175	**1,701**	12,753	**100.0**	100.0

Sinopia Asset Management and its subsidiaries generated a cumulative profit before tax of EUR 5.5 billion, severely affected by a change in the scope of consolidation and a decline in revenues for banking subsidiary Sinopia Financial Services, as well as continuing unfavourable market conditions for alternative and structured products. 2009 was characterised by the financial crisis that culminated in the first half of the year, followed by a significant market rebound in the second half. Assets under management amounted to EUR 20.4 billion at 31 December 2009, a slight increase of 4% compared with end-2008, thanks to a positive price effect making up for negative net inflows into absolute return strategies at the start of the year and the maturing of guaranteed/structured funds. In this difficult climate, Sinopia Asset Management continued with its international expansion, particularly in the United States, Canada and the Asia-Pacific region. It enhanced its product range in 2009 with the launch of a range of index-linked funds and the first ETFs in the HSBC ETF range, which will continue in 2010.

HSBC Epargne Entreprise	**110,954**	195,761	**82,457**	88,487	**(6,030)**	(450)	**100.0**	100.0

HSBC Epargne Entreprise, a wholly-owned employee savings subsidiary of the HSBC Group, works with over 11,000 companies on a daily basis and manages around 700,000 individual accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totalling EUR 3.9 billion at 31 December 2009. At 30 June 2009, assets under management stood at EUR 3.5 billion, making the Group the seventh-largest employee savings company. Its products are distributed either directly or via the HSBC Group distribution network in France and partner networks, covering the needs of companies of all sizes.

HSBC REIM (France)	**11,579**	8,336	**4,565**	4,119	**2,168**	1,913	**100.0**	100.0

HSBC REIM (France) is the Asset Management subsidiary specialising in real estate management for third parties. At 31 December 2009, the market value of assets under management was EUR 700 million. The main fund managed, Elysées Pierre, with assets of EUR 565 million and 126 properties, is a SCPI real estate investment trust invested primarily in offices in the Paris region. The fund has a yield-based strategy, which over the last five years has resulted in regular growth in the annual dividend of around 3% a year. HSBC REIM (France)'s 2009 net profit was 13% higher than in 2008 at around EUR 2.2 million. Net operating income came to EUR 7.1 million, two-thirds of which came from recurring commission income for property management services and the remainder from commission income within the framework of the SCPI Elysées Pierre capital increase and the SCPI Elysées Résidence 5 capital increase (a residential SCPI investment trust launched in 2009 under the Scellier regime).

Group structure and summary of business activities of HSBC France's principal subsidiaries (continued)

Private Banking
(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC France group's percentage holding	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
HSBC Private Bank France	**1,093,393**	1,427,035	**182,494**	187,876	**931**	8,937	**99.9**	99.9

2009 was characterised by continuing deterioration in economic conditions until March, followed by a market upturn that gained pace at the end of the year. Clients remained partially risk adverse and investments were directed primarily at life insurance and bonds. However, the sharp fall in interest rates resulted in renewed interest in structured products and equities. Assets under management benefited from the rise in the equity markets, amounting to EUR 9.3 billion at 31 December 2009, an increase of 10% compared with end-2008. Consolidated revenues (EUR 68.3 million) were severely affected by the crisis at the start of the year. Consolidated operating expenses (EUR 65.6 million) decreased by 18.5% thanks to continuation of the cost-controlling efforts initiated in 2008. Profit before tax came to EUR 2.4 billion under particularly difficult market conditions.

Own investments
(in thousands of euros)

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
SFS	**28,040**	30,188	**10,942**	71	**10,871**	(16,783)	**100.0**	100.0

SFS's 2009 performance, with significant improvement compared with 2008, was mainly due to three factors:
- the significant rebound in the financial markets;
- the sale of a large portion of the portfolio of listed securities held by SFS (Rhodia and Swiss Life);
- the impact of the merger into SFS of Neuilly Saint Paul, the entity acquired by SFS in the second half of 2009 from a wholly-owned subsidiary of HSBC France.

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
Nobel	**349,953**	332,046	**325,181**	307,578	**33,661**	(33,891)	**100.0**	100.0

Nobel, a holding company for the Group's proprietary participating interests, pursues an investment strategy focusing on listed mid-caps and private equity funds. Regarding listed stocks, Nobel acquires minority stakes, usually in midcap companies with little or no coverage by analysis firms, with a fundamental value-based approach and a truly medium-term investment horizon. Nobel's management is provided by a dedicated and independent team of seven investment professionals. Over the last ten years, Nobel's performance has generated a yearly internal rate of return of over 20% without use of leverage, while the various equity market indices have delivered performances close to zero over the same period. Nobel generated gross operating profit of EUR 34 million in 2009 and benefited fully from the market upturn, with a performance of over 66% for its listed portfolio. The HSBC Group has decided to discontinue Nobel's activities and will now manage the portfolio on a run-off basis.

Other subsidiary of the HSBC Group in France
(in thousands of euros)

	Total assets 2009	Total assets 2008	Shareholders' funds 2009	Shareholders' funds 2008	Net profit 2009	Net profit 2008	Holding 2009	Holding 2008
HSBC Assurances Vie (France)	**16,153,800**	14,631,411	**487,799**	446,275	**37,334**	53,022	**100.0**[1]	100.0[1]

HSBC Assurances Vie (France)'s gross reinsurance premiums amounted to EUR 2.1 billion, up 5% compared with 2008. Technical reserves in euros increased by 11.5% to EUR 12.3 billion, while those in unit-linked products rose by 7.4% to EUR 2.8 billion. Net profit totalled EUR 37 million in 2009, down 29.6% relative to 2008.

1 *100% held by HSBC Bank plc Paris Branch since 20 December 2007.*

Investment policy

2005

- Subscription to capital increase made by BMS and SFPMEI.
  Cost: EUR 0.8 million.
- Subscription by SFS to capital increase made by Rhodia.
  Cost: EUR 0.6 million.
- Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 9.5 million.
- Redemption of the participating notes issued by CCF.
  Cost: EUR 7.9 million.
- Acquisition of 34 per cent of the capital of Elysees Factor from Eurofactor.
  Cost: EUR 2.7 million.
- Disposal by HSBC France of its participation in Eurofactor.
  Proceeds: EUR 7.0 million.
- Subscription to capital increase made by Netvalor.
  Cost: EUR 14.3 million.
- Disposal of Netvalor.
  Proceeds: EUR 30.2 million.
- Disposal of HSBC Dewaay to KBL.
  Proceeds: EUR 122 million.
- Acquisition of minority interests in HSBC Private Bank France.
  Cost: EUR 14.1 million.
- Subscription to capital increase of HSBC Leasing (France).
  Cost: EUR 7.2 million.
- Acquisition by HSBC France of the BIAT shares held by SMC, according to the rationalisation of the group's participation.
  Cost: EUR 3.2 million.
- Subscription by HSBC France and HSBC Epargne Entreprise to capital increase made by Erisa.
  Cost: EUR 25.0 million.
- Disposal of 51 per cent held in the capital of Framlington Group Limited to AXA Investment Managers.
  Proceeds: EUR 133.4 million.
- Disposal by Charterhouse Management Services Limited of three subsidiaries holding private equity assets (Charterhouse Development Ltd, Charterhouse Buy-Out Fund Investment Advisers Ltd and Charterhouse Finance Corporation Ltd) to HSBC Investment Bank Holdings plc.
  Proceeds: GBP 236.7 million.

2006

- Acquisition of minority interests in HSBC Private Bank France by HSBC France.
  Cost: EUR 31.3 million.
- Disposal by HSBC France of its participation in Aurel Leven.
  Proceeds: EUR 1.3 million.
- Disposal by HSBC France of its participation in Schneider.
  Proceeds: EUR 24.5 million.
- Disposal by HSBC France of its participation in Lafarge.
  Proceeds: EUR 86.5 million.
- Partial disposal by HSBC France of its participation in Altadis.
  Proceeds: EUR 22.3 million.
- Acquisition by HSBC France of 2 per cent of MTS spa.
  Cost: EUR 4.9 million.
- Investment by SAF Palissandre in a Partnership set up by Deutsche Bank.
  Cost: EUR 500 million.

2007

- Acquisition by HSBC France of 50.01 per cent of Erisa and Erisa IARD from Swiss Life.
  Cost: EUR 228.75 million.
- Disposal by HSBC France of 100 per cent of Erisa and Erisa IARD to HSBC Bank plc Paris Branch.
  Proceeds: EUR 528 million.
- Disposal by HSBC France of 13.65 per cent of HSBC Private Banking Holdings (Suisse) SA to HSBC Europe (Netherlands) BV.
  Proceeds: EUR 1,020 million.
- Disposal by HSBC France of 5.2 per cent of Infrastructure Leasing & Financial Services Limited (India).
  Proceeds: EUR 27.6 million.
- Disposal by HSBC Private Bank France of 3 per cent of Canal+ Réunion.
  Proceeds: EUR 2.7 million.
- Acquisition by HSBC France of 25 per cent of FinanCités.
  Cost: EUR 0.55 million.
- Subscription by HSBC France to capital increase of Vernet Expansion to allow Forepar to repurchase Elysées Forêts shares from clients.
  Cost: EUR 1.5 million.

Investment policy (continued)

- Subscription by HSBC France to capital increase of HSBC Leasing (France).
  Cost: EUR 75.5 million.
- Disposal by HSBC France and HSBC Securities (France) SA of 1.2 per cent of Euronext.
  Proceeds: EUR 134.7 million.
- Capital decrease of Charterhouse Management Services Limited.
  Proceeds: EUR 444.5 million.
- Capital decrease of CCF & Partners Asset Management Limited.
  Proceeds: EUR 40.6 million.

2008

- Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).
  Proceeds: EUR 2,100 million.
- Disposal by HSBC France of its participation in Altadis.
  Proceeds: EUR 66.3 million.
- Subscription by HSBC France to capital increase made by HSBC Covered Bonds (France).
  Cost: EUR 28 million.
- Subscription by HSBC France of 9.43 per cent of Société de Financement de l'Economie Française capital.
  Cost: EUR 4.7 million.
- Subscription by HSBC France to capital increase made by HSBC Financial Products (France).
  Cost: EUR 75 million.
- Disposal by HSBC France of its participation in BIAT.
  Proceeds: EUR 8.6 million.

2009

- Subscription by HSBC France to capital increase made by HSBC Financial Products (France).
  Cost: EUR 75 million.
- Disposal by HSBC France of its participation in Visa.
  Proceeds: EUR 2.8 million.
- Disposal of Swiss Life shares by SFS.
  Proceeds: EUR 13.6 million.

Other legal documents relating to the Annual General Meeting to be held on 11 May 2010

Agreements governed by Article L. 225-38 of the French Commercial Code

Article L. 225-38 of the French Commercial Code requires that any agreement entered into directly or indirectly between a company and one of its Directors or Senior Executives, or between a company and one of its shareholders owning at least 10 per cent of the voting rights, or, in the case of a corporate shareholder, the company which controls it, must first be authorised by the Board of Directors and subsequently approved at the Annual General Meeting of Shareholders. It also prohibits certain types of agreement between those parties, such as loans or guarantees.

Agreements entered into in 2009

Two agreements governed by Article L. 225-38 of the French Commercial Code and subject to the approval of HSBC France's Board of Directors were entered into in 2009:

– Supplementary defined benefit pension scheme

This agreement confirms the decisions adopted previously at the Board meetings of 24 February 2004, 27 February 2007 and 25 July 2007 concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of CCF, subsequently HSBC France, and the payment of these supplementary pensions to Charles-Henri Filippi, Christophe de Backer and Gilles Denoyel, under the terms set out in HSBC France's Annual Reports. It was also specified that Mr Boyles did not benefit from this supplementary pension scheme because of his status as International Manager of the HSBC Group, giving him access to one of the HSBC Group's pension funds.

Christophe de Backer and Gilles Denoyel did not take part in the vote on this agreement during the Board meeting of 29 July 2009.

– Delegation of financial management of asset management mandates allocated by clients of the HSBC France network to HSBC Global Asset Management (France)

Under an agreement between HSBC France and HSBC Global Asset Management (France), HSBC France has assigned financial management of asset management mandates allocated by clients of its network to HSBC Global Asset Management (France) as of 1 January 2010.

Christophe de Backer, Jean Beunardeau and Gilles Denoyel, Directors of HSBC France and HSBC Global Asset Management (France), did not take part in the vote on this agreement during the Board meeting of 18 November 2009.

Agreements entered into in prior years and still in force and effect during 2009

Three agreements entered into in 2001 by HSBC France and its direct 99.99 per cent shareholder, HSBC Bank plc Paris Branch, remained in full force and effect during 2009. These were a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement.

The agreement entered into in 2003 with HSBC Bank plc regarding the invoicing of services covering market activities of the HSBC France group remained in full force and effect during 2009.

The agreement entered into in 2005 with HSBC Holdings plc and HSBC Bank plc regarding services provided by their central departments also remained in full force and effect during 2009.

The "Group Software" agreement entered into in 2006 with HSBC Holdings plc, HSBC France and other companies of the HSBC Group remained in full force and effect during 2009 regarding the share of the IT development expenses engaged by the HSBC Group.

The agreement entered into in 2007 between HSBC Bank plc and HSBC France regarding the terms of Group Financial Services & European Audit's involvement in internal audits in some of the HSBC France group's business areas, in particular the scope of audits and how they are conducted, remained in full force and effect during 2009.

The agreement renewed in 2007 between HSBC Holdings plc and HSBC France giving HSBC France and its subsidiaries free use of the HSBC brand remained in full force and effect during 2009.

Other legal documents relating to the Annual General Meeting to be held on 11 May 2010 (continued)

Statutory Auditors' report on regulated agreements and commitments

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

Year ended 31 December 2009

To the shareholders,

In our capacity as Statutory Auditors of your Company, we hereby present to you our report on the regulated agreements.

I – Agreements and commitments entered into by the Company

In accordance with Article L. 225-40 of the French Commercial Code we have been advised of agreements which have been previously authorised by your Board of Directors.

We are not required to ascertain whether any other agreements and commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were noticed. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of Article R.225-31 of the French Commercial Code, to evaluate the benefits arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

Supplementary defined benefit pension scheme

– Directors or companies concerned by the agreement: Peter Boyles, Charles-Henri Filippi, Christophe de Backer and Gilles Denoyel.

– Purpose of this agreement: This agreement confirms the decisions adopted previously at the Board meetings of 24 February 2004, 27 February 2007 and 25 July 2007 concerning the updating of the rules governing the supplementary defined benefit pension scheme for four Senior Executives of CCF, subsequently HSBC France, and the payment of these supplementary pensions to Charles-Henri Filippi, Christophe de Backer and Gilles Denoyel, under the terms set out in HSBC France's Annual Reports. It was also specified that Mr Boyles did not benefit from this supplementary pension scheme because of his status as International Manager of the HSBC Group, giving him access to one of the HSBC Group's pension funds. Christophe de Backer and Gilles Denoyel did not take part in the vote on this agreement during the Board meeting of 29 July 2009.

– Terms and conditions of the agreement: The provision corresponding to the present value of these HSBC France pension commitments has been recorded in the HSBC France accounts at 31 December 2009, for an amount of EUR1.8 million.

Delegation of financial management of asset management mandates allocated by clients of the HSBC France network to HSBC Global Asset Management

– Directors or companies concerned by the agreement: Peter Boyles, Charles-Henri Filippi, Christophe de Backer et Gilles Denoyel.

– Purpose of this agreement: Under an agreement between HSBC France and HSBC Global Asset Management (France), HSBC France has assigned financial management of asset management mandates allocated by clients of its network to HSBC Global Asset Management (France) as of 1 January 2010. Christophe de Backer, Gilles Denoyel and Jean Beunardeau, Directors of HSBC France and HSBC Global Asset Management (France), did not take part in the vote on this agreement during the Board meeting of 18 November 2009.

– Terms and conditions of the agreement: This agreement is effective from 1 January 2010 and had no financial impact in 2009.

II – Continuing agreements and commitments which were entered into in prior years

In addition, in accordance with the French Commercial Code, we were informed that the following agreements, which were entered into in prior years, have continued during the year.

With HSBC Holdings plc

– Services provided by central departments of HSBC Holdings plc are invoiced to HSBC France with respect to the agreement settled in 2005. The invoices represented a charge of GBP 7.8 million in 2009.

– According to the "Group Software" contract entered into in 2006 between HSBC Holdings plc and HSBC France and other Group companies, the expenses engaged by the Group regarding IT development are invoiced.

  The allocation of costs is set for each "group application". Invoiced costs relate to:

  • time spent by staff directly allocated to development projects and costs that they incur in these projects;

  • any project-related internal and external costs (use of external suppliers);

  • indirect costs related to the use of equipment in implementing the various projects.

  The developments recorded in the books in 2009 represented charges of USD 19.5 million.

– Agreement renewed in 2007 and giving HSBC France and its subsidiaries the free use of the HSBC brand.

With HSBC Bank plc

– Services provided by central departments of HSBC Bank plc are invoiced to HSBC France with respect to the agreement settled in 2005. This agreement had no financial impact in 2009.

– Service level agreement for all market activities of the HSBC France group with respect to the agreement settled in 2003. This agreement had no financial impact in 2009.

– Further a request of Commission Bancaire, an agreement was entered into in 2007 between HSBC France and HSBC Bank plc. This agreement sets out the terms of Group Financial Services & European Audit's involvement in internal audits in some of the HSBC France group's business areas. It sets out the scope of audits and how they are conducted (annual programme, information sharing and monitoring to ensure that recommendations are implemented). This agreement will not give rise to any invoices.

Other legal documents relating to the Annual General Meeting to be held on 11 May 2010 (continued)

With HSBC Bank plc Paris Branch

– Three agreements have been entered into during 2001 by HSBC France and HSBC Bank plc Paris Branch and remained in full force and effect during 2009:

- A groupwide service agreement for the purpose of rendering services to its members at cost concerning diverse activities of the two entities: back-office payments, back-office treasury, credit risk management, and euro zone management.

- Service level agreement issued by HSBC France to HSBC Bank plc Paris Branch concerning:

  – services related to back-office payment processing activities;

  – services related to back-office treasury activities;

  – some services related to information technology.

  Payment for the services rendered is equal to the cost incurred by HSBC France in providing the services. The agreement is valid for an indeterminate period.

  With respect to these two agreements, the income recognised amounted to EUR 1.1 million in 2009.

- Tax integration agreement between HSBC Bank plc Paris Branch, the Company at the head of the group tax integration, and HSBC France: this agreement allows for the tax savings realised each year by the tax integration group, that are not used by the member companies in deficit, to be available for HSBC France after deducting the amounts already paid by HSBC Bank plc Paris Branch to other members of the Group. The tax income recorded amounted to EUR 78 million in 2009.

Paris-La Défense and Paris, 26 April 2010

KPMG Audit	BDO France – Léger & Associés
Department of KPMG S.A.	Michel Léger
Pascal Brouard	*Partner*
Partner	

Proposed resolutions to the Annual General Meeting

Ordinary Business

First resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2009, and the Chairman's and the Statutory Auditors' reports on corporate governance, internal control and risk management procedures, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby approve the following proposed distribution of net profit for the year:

Net profit for the year......	EUR550,166,651.43
Plus retained profits	EUR3,108,661,983.89
Total sum available for distribution...........	EUR3,658,828,635.32

To be distributed as follows:

Dividend of EUR9.94 per share to be paid to the shareholders.......	EUR670,331,930.80
Free reserve	EUR2,988,496,704.52

According to the decisions of the Board of Directors on 29 July and 18 November 2009, advance dividends amounting to EUR 3.70 and EUR 6.24 per share have already been paid to the 67,437,820 shares issued at that date, for a total amount of EUR 670,331,930.80.

As these advance dividends are equal to the total amount of the dividend, no final payment will be made.

Dividend paid is eligible for the tax deduction referred to in Article 158 paragraph 3.2 of the General Tax Code.

The shareholders duly note that dividends paid in respect of the three previous financial years were as follows:

Year	Net dividend per share
2006	EUR8.10
2007	EUR3.04
2008	–

Dividends paid in respect of the three previous years are eligible for the tax deduction referred to in Article 158 paragraph 3.2 of the General Tax Code.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2009, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by Article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in Article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Jean Beunardeau, who is retiring by rotation, as Director for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2013.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby re-elect Mr Gilles Denoyel, who is retiring by rotation, as Director for a further term of four years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2013.

Special Business

Seventh resolution

Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors and the special report of the Auditors, and in accordance with the provisions of Article L. 225-129-6, paragraph 2 of the French Commercial Code, the shareholders hereby authorise the Board of Directors to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash reserved for participants in the company's employee share ownership plan in accordance with the provisions of Article L. 3332-18 of the French Labour Code.

The shareholders set the maximum increase in the share capital at ten million euros.

Other legal documents relating to the Annual General Meeting to be held on 11 May 2010 (continued)

The shareholders expressly renounce their pre-emptive subscription right with respect to new shares issued for the benefit of participants in the company's employee share ownership plan.

This authority shall extend for two years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to decide all terms and conditions of the issuance transactions to be made, in particular the issue price of the new shares. The shareholders also grant the Board full powers to recognise the capital increase or increases effected under this authority, to amend the articles of association accordingly and generally to do what is necessary.

Eighth resolution

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC France and its share capital

Information on the company

Name
HSBC France
New name of CCF since 1 November 2005.

Commercial name
HSBC since 1 November 2005.

Date of incorporation
1894.

Registered office
103, avenue des Champs-Elysées – 75008 Paris – France.

Legal Form
Société Anonyme incorporated under the laws of France, governed notably by the French Commercial Code. The company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term
The company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (Article 3 of the Articles of Association)
The company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of Articles L. 321-1 and L. 321-2 of the Monetary and Financial Code, and more generally, to conduct within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register and APE code
775 670 284 RCS Paris – APE 651C.

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

HSBC France – 103, avenue des Champs-Elysées – 75419 Paris Cedex 08 – France.

Financial year
From 1 January to 31 December.

Distribution of profits
A minimum of 5 per cent of the net profit for the year, less any prior year losses, is transferred to the legal reserve until such time as it has reached one tenth of the company's share capital and at any time after that should it fall back below the minimum requirement.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the company's share capital, no distribution may be made if total shareholders' funds are or would as a result become lower than the amount of the company's share capital plus any non-distributable reserves.

By way of derogation to the provisions of this article, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares
Shares are obligatorily registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights
Each fully-paid up share entitles the holder to one vote.

Transfer of shares
The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Similarly, there are no restrictions on disposals of shares to natural or legal persons appointed as directors, subject to the number of shares provided by Article 11 of these Articles of Association.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution,

Information on HSBC France and its share capital (continued)

merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the directors present or represented. The transferor shall be entitled to vote, if he is a director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by Article 1843-4 of the Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it on the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this Article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by Article 1843-4 of the Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this Article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by Article 1843-4 of the Civil Code.

Custodian and financial service

HSBC France.

History of the company

1894: The Banque Suisse et Française (BSF) is founded. It will become the Crédit Commercial de France.

1965: First CCF advertising campaign.

CCF keeps growing, particularly on an international level. Its presence outside of France is strengthened with the opening of branches, subsidiaries and representation offices abroad.

From 1982 to 1987, CCF creates a European investment bank and the acquisition of interests in Union de Banque à Paris, Européenne de Banque and Banque Chaix is the basis of the future CCF group.

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1990: Crédit Commercial du Sud-Ouest is created with the CCF branches located in Gironde département.

1992: CCF acquires Banque Marze in Ardèche département.

1993: CCF acquires Banque de Savoie.

1994: Centenary of CCF.

CCF develops its activities in investment banking, international private banking, asset management, and French retail banking with the acquisition of other regional banks.

During the 90's, asset management activity becomes the third main activity in CCF group.

1995: CCF acquires Banque Dupuy, de Parseval.

1998: Société Marseillaise de Crédit joins CCF group.

1999: CCF acquires 100 per cent of Banque de Picardie.

April 2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

August 2000: CCF acquires Banque Pelletier.

2001: CCF acquires Banque Hervet.

June 2002: Crédit Commercial de France changes its legal name to CCF.

November 2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC UBP, HSBC Picardie and HSBC de Baecque Beau constitute the new HSBC network.

July 2008: Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud Ouest).

July 2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

Material contracts

HSBC France currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2009, the share capital amounted to EUR 337,189,100 divided into 67,437,820 fully paid up shares, each with a nominal value of EUR 5.

Authorities to increase the share capital

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	27 May 2009
Expiry date	27 July 2011
Maximum nominal amount	EUR100 million
Used amount	EUR0

Information on HSBC France and its share capital (continued)

Movements in share capital

	2009			2008		
	Number of shares	**Share capital in euros**	**Share premium in euros**	Number of shares	Share capital in euros	Share premium in euros
At 1 January	**67,437,820**	**337,189,100**	—	75,963,895	379,819,475	—
Exercise of share options[1]	—	—	—	221,154	1,105,770	16,138,604.17
Reduction of share capital by cancellation of own shares held	—	—	—	(8,750,000)	(43,750,000)	(834,122)
Capital increase	—	—	—	2,771[2]	13,855	—
At 31 December	**67,437,820**	**337,189,100**	—	67,437,820	337,189,100	—

1 *Of which:* *100,379 shares issued at EUR 73.48*
120,775 shares issued at EUR 81.71

2 *Capital increase due to the approval by the General Meeting held on 31 July 2008 of the mergers of HSBC Hervet and HSBC de Baecque Beau with HSBC France.*

2007			2006			2005		
Number of shares	Share capital in euros	Share premium in euros	Number of shares	Share capital in euros	Share premium in euros	Number of shares	Share capital in euros	Share premium in euros
75,683,045	378,415,225	—	75,237,930	376,189,650	—	74,802,146	374,010,730	—
280,850	1,404,250	20,508,296.50	445,115	2,225,575	34,307,829.70	435,784	2,178,920	32,513,604.12
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
75,963,895	379,819,475	—	75,683,045	378,415,225	—	75,237,930	376,189,650	—

66,000 shares issued at EUR 37.05
91,775 shares issued at EUR 73.48
79,200 shares issued at EUR 81.71
43,875 shares issued at EUR 142.50

44,500 shares issued at EUR 35.52
96,000 shares issued at EUR 37.05
93,090 shares issued at EUR 73.48
91,900 shares issued at EUR 81.71
119,625 shares issued at EUR 142.50

52,000 shares issued at EUR 34.00
20,000 shares issued at EUR 35.52
53,560 shares issued at EUR 37.05
103,054 shares issued at EUR 73.48
112,920 shares issued at EUR 81.71
94,250 shares issued at EUR 142.50

Information on HSBC France and its share capital (continued)

Share options

Pursuant to the authorities granted by Extraordinary General Meetings held on 13 May 1992, 7 May 1997 and 29 April 1998, and the ensuing Board resolutions, share options have been granted to managers and Directors of the company, as follows:

Year	Allocation	Exercise price		Options outstanding at 31.12.2009	Expiry date
1999	909,000	FRF536	EUR81.71	–	2009
2000	909,000	–	EUR142.50	604,250	2010

The maximum number of HSBC France shares that may be issued pursuant to the exercise of share options is 604,250, which would raise the total number of EUR 5 nominal shares in circulation to 68,042,070.

Ownership of share capital and voting rights at 31 December 2009

HSBC Bank plc has owned 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York, Paris and Bermuda.

Dividend and payout policy

	2009	2008	2007	2006	2005
Number of shares at 31 December	**67,437,820**	67,437,820	75,963,895	75,683,045	75,237,930
Average number of shares outstanding during the year	**67,437,820**	75,020,854	75,698,434	75,262,320	74,826,025
EPS [1]	**EUR5.15**	EUR23.51	EUR12.88	EUR8.14	EUR14.95
Net dividend	**EUR9.94**	EUR0	EUR3.04	EUR8.10	EUR5.19
Exceptional dividend	**–**	–	EUR6.54	–	–
Dividend + tax credit	**–**	–	–	–	–
Payout [2]	**193%**	0%	74.4%	100%	34.9%

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 11 May 2010, the Board will propose a net dividend of EUR 9.94 per EUR 5 nominal share. As the proposed amount equals the advance dividends decided by the Board on 29 July and 18 November 2009, there would be no new payment.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Employees, remuneration, share offering and incentive schemes

The following information is provided in compliance with the provisions of Article 1 of the decree 2002-221 of 20 February 2002, in application of Article L. 225-102-1 of the French Commercial Code inserted by the Law no. 2001-420 (the "New Economic Regulations" Act).

Employees at 31 December

Number of staff members

	2009 [1]	2008	2007	2006	2005
Total HSBC France group	**10,677**	11,227	14,795	14,901	14,417
HSBC France	**9,748**	10,218	8,789	8,503	7,752
Subsidiaries and branches	**929**	1,009	6,006	6,398	6,665

Full time equivalents

	2009 [1]	2008	2007	2006	2005
Total HSBC France group	**10,350**	10,886	14,279	14,379	13,878
HSBC France	**9,435**	9,892	8,486	8,204	7,494
Subsidiaries and branches	**915**	994	5,793	6,175	6,384

1 *During 2009, most HSBC Financial Products (France) employees were integrated into HSBC Bank plc Paris Branch, which is excluded from the scope presented above.*

2008/2009 employment report for HSBC France, parent company of the group

The comments given below are based on actual staff numbers as above.

HSBC France's headcount decreased in 2009

2009 headcount: 9,748, a decrease of 4.6 per cent or 470 employees on 2008.

New employees (excluding Group mobility): 698 in 2009, of which 305 new permanent employees and 393 contract staff, including 128 young people on work placements.

Departures: 1,168. Resignations accounted for 23 per cent of total departures and retirement for 18 per cent.

The structure of the workforce is similar to that of previous years, with the proportion of management staff remaining stable and a further increase in the proportion of female management staff

The proportion of management staff is now 62.3 per cent. Within this management staff group, the percentage of women stabilised at 46.4 per cent.

At 31 December 2009, 924 employees were working part time under flexible working agreements, representing 9.5 per cent of total staff.

HSBC France employed 245 staff with disabilities at the end of 2009.

Employees, remuneration, share offering and incentive schemes (continued)

Employee relations and collective bargaining agreements

- Agreement on working hours;
- Technical amendment to the HSBC France diversity agreement;
- Minutes of disagreement relating to the 2010 annual pay negotiations for HSBC France;
- Agreement on the monetisation of rest days acquired in 2009;
- Amendment to the HSBC France company agreement on long service, long-service awards and loyalty;
- HSBC France group agreement on older employees;
- Protocol agreement on the creation and operation of the HSBC France Group Works Council;
- Agreement on job grading in the HSBC France company agreement;
- Agreement on converting the HSBC France pension scheme into a supplementary pension fund management institution;
- HSBC France employee profit-sharing agreement;
- HSBC France employee incentive scheme;
- Amendment to the HSBC France employee incentive agreement;
- Amendment to the 15 October 2008 agreement on bonuses and benefits;
- Amendment to the collective bargaining agreement relating to the regulations of the HSBC France company savings scheme;
- Amendment to the HSBC France agreement establishing a group benefits scheme for the reimbursement of medical expenses;
- Amendment to the pre-election protocol agreement on works council/employee representative elections of 22 January 2009 – Paris;
- Amendment to the pre-election protocol agreement on works council/employee representative elections of 22 January 2009 – Western Region;
- Amendment to the pre-election protocol agreement on works council/employee representative elections of 22 January 2009 – North Eastern Region;
- Amendment to the pre-election protocol agreement on works council/employee representative elections of 22 January 2009 – Southern *Rhône-Alpes* Region.

Pay

In 2009, Senior Executive Management unilaterally decided to apply the following measures:

- a minimum pay rise for employees whose annual salary is EUR 30,000 or less;
- minimum annual gross basic salary increased to EUR 21,000;
- minimum annual gross basic salary for management grade staff set at EUR 31,000;
- option for all Technician grade employees earnings more than EUR 36,000 a year to move to Management grade and receive all corresponding management grade benefits;
- a budget for individual pay increases in the following situations:
  - to encourage equal treatment between men and women,
  - for employees having taken long-term maternity, adoption or parental education leave,
  - for employees aged over 50 who have not had a selective pay rise in the last five years,
  - to increase the salaries of some employees where an unwarranted pay discrepancy has been identified;
- budgets for selective pay revisions and individual variable pay.

Training

The range of online training ("e-learning") options was again substantially extended in 2009 in all the company's business sectors: English for all employees, performance management and manager-coach training for managers, banking applications for Commercial Banking staff and new joiners, regulatory training for all employees, wealth management for Retail Banking customer advisers, balance sheet analysis for business banking advisers, Clarity for HSBC Technology Services (HTS) and Acumen for Global Banking. E-learning will continue to develop as a training method in its own right or combined with classroom training in an interactive format such a virtual classroom.

HSBC France has introduced a new system for English-language training focusing primarily on remote learning. A linguistic audit is carried out to assess the employees' level and identify their specific needs. The results are then used as a basis to devise personalised training courses based on the various options available and for different periods: classroom training coupled with a virtual language lab, e-learning with a virtual classroom, e-learning with a "private teacher".

To help develop management coaching skills, the new Manager-Coach course, which lasts three to four months, alternates between classroom, e-learning and virtual classroom. Two modules are available to take account of different management levels: team manager and management manager. There is also a module for project managers and a coaching certification module.

In Retail Banking, 2009 saw a greater specialisation around two networks which are now physically separate: Personal Financial Services and Commercial Banking. In Personal Financial Services, almost 800 employees (Premier advisers/deputy managers, wealth management advisers moving to Premier, business banking advisers with Premier customers and branch managers) embarked on level 3 of the Premier accreditation course, which will continue into 2010. In Commercial Banking, since the creation of the business banking centres, training in business risk management has been extensively provided to round out efforts to foster a real credit culture. In both networks, all managers also received coaching training (manager-coach course) to help them integrate these skills into their managerial practices. The training for new joiners and employees on internal transfers was also reorganised in 2009 to create a more modular structure for the future Group training academies.

The support functions received training in the new issues affecting their business activities (payroll, employment law, training), as well as project management training, especially for HR staff to help them better support the business lines for which they are responsible.

HTS technicians were provided with training in personal lending commitments for the regional commitments teams and in the basics of wealth management and the financial markets for the inheritance and discretionary management teams.

In Global Banking, further technical training was scheduled (swaps, project financing, structured equity products, etc.) and the final training sessions for the back and middle offices Global Banking and Markets took place.

For the Global Transaction Banking teams, business performance training was organised for the third consecutive year.

Overtime, temporary staff and sub-contracting

The total number of overtime hours declared by employees in 2009 was similar to that made on a comparable structure basis in 2008, with total headcount down 5 per cent. Within this broadly stable total, there was an increase in the proportion of hours declared by employees under the exceptional work agreement, largely due to IT work (migration work carried out by the shared platform staff and upgrading the P-Light and Windows databases by the IT technicians of Global Banking and Markets).

In 2009, IT development and migration work drew on resources provided by the HSBC Group's Global Technology IT centres in Asia, which helped limited recourse to IT outsourcing in France. Work previously carried out in the back offices continued to be transferred to the HSBC Group's Group Services Centres.

Employees, remuneration, share offering and incentive schemes (continued)

Health & safety

HSBC France has Health & Safety and Work Committees covering all its activities in France.

These Committees have resources above the minimum required by law, particularly in terms of inspections of the Group's premises and the number of representatives.

In 2009, the Committees were particularly involved in consultations relating to the many relocations at central sites.

Absenteeism

Maternity leave increased by 14 per cent in 2009, relating to recruitment over the last few years resulting in a larger proportion of female and younger staff. Absences caused by sickness remained stable in 2009.

Company welfare schemes

The consolidated amount of payments to establishment-level works councils (*Comités d'Etablissements*) and central works council (*Comité Central d'Entreprise*), based on a percentage of total wage costs, is more than EUR 3.7 million.

Since the legal merger in late July 2008, the subsidy previously paid to the mutual benefit society by HSBC France in respect of members' contributions has been replaced by an employer contribution to the financing of employees' individual mandatory contributions, which is calculated by payroll.

However, a new subsidy has been introduced. HSBC France pays the HSBC France employees' mutual benefit society fund an amount corresponding to 0.05 per cent of HSBC France base salaries. A joint committee for monitoring the plan defines the direction to be taken by the fund and decides on aid given to employees by this means. Within the framework of paying contributions into the healthcare expenses plan, the fund can provide financial support for single-parent families in difficulty due to their situation.

HSBC France contributed more than EUR 9.6 million to additional employee benefits (housing, compensation for children starting a new school year, travel, childcare, Mother's Day, loyalty and long-service awards).

Incentive schemes

A three-year employee profit-sharing agreement and incentive scheme were created on 19 May 2009 for HSBC France, covering 2009, 2010 and 2011.

Profit-sharing agreements

HSBC France's profit-sharing entitlement is calculated using an alternative method rather than the standard method applicable under ordinary law. The alternative method is based on a sliding percentage scale of HSBC France's restated net profit.

Restated net profit is calculated as restated operating profit less various provisions and a standardised tax charge.

The total profit-sharing entitlement may not exceed accounting net profit less 5 per cent of equity.

In addition, the total profit-sharing and incentive scheme entitlement is capped at 8.25 per cent of the total payroll costs that serve as a basis for calculating social security contributions, as defined in the annual wage returns.

Incentive scheme

The HSBC France incentive scheme is based on three aggregates: restated operating profit, the cost efficiency ratio and two environmental indicators, water consumption and energy consumption.

For the two earnings indicators, the incentive entitlement is based on a sliding percentage scale of operating profit and the improvement in the cost efficiency ratio compared with the previous year. The cost efficiency ratio multiplier can increase the amount of the entitlement based on the percentage of operating profit by up to 20 per cent.

In addition, to take account of the growing importance of sustainability issues, the incentive scheme included two environmental criteria for the first time: the reduction in water consumption and energy consumption compared with the previous year. The improvement in these two indicators can increase the incentive entitlement based on a percentage of operating profit by up to 10 per cent.

As indicated above, the total profit-sharing and incentive entitlement is capped at 8.25 per cent of the total payroll costs that serve as a basis for calculating social security contributions, as defined in the annual wage return.

Amendment no. 1 to the incentive scheme

An amendment to the new incentive scheme was signed on 19 May 2009 in order to pay an exceptional incentive bonus to HSBC France employees under the provisions of the law of 3 December 2008 on wages and salaries.

An exceptional incentive bonus of EUR 1,500 gross was thus paid in June 2009 to all employees on a uniform basis.

Collective bargaining agreement relating to regulations for the HSBC France company savings plan

The agreement signed in 2008 offered all HSBC France employees a new and improved company savings plan as of 1 January 2009.

Employee payments into the company savings plan and the long-term future retirement savings plan (PERF) will benefit from the following employer's top-up contributions:

– the company may make a top-up payment into the company savings plan of up to EUR 1,800 a year;

– the company may make a top-up payment into the future retirement savings plan of up to EUR 624;

– making a total contribution from the company of up to EUR 2,424 a year.

Share option policy

Pursuant to the authority granted by the shareholders at the Annual General Meeting of 22 July 1987, renewed at the Annual General Meetings of 13 May 1992 and 7 May 1997, the Board of Directors established a policy of awarding share options each year to the Executive Directors and Senior Managers of CCF. At the proposal of the Nomination and Remuneration Committee, the Board gradually extended the share option policy with a view to retaining key employees and encouraging value creation.

Employees, remuneration, share offering and incentive schemes (continued)

CCF Options awarded (Table 8 [1])

Date of Annual General Meeting authority	07.05.1997	07.05.1997
Date of Board meeting	07.04.1999	12.04.2000
Total number of options awarded	909,000	909,000
of which: number of options awarded to members of the Management Committee	312,000	161,000*
Total number of beneficiaries	331	502
Number of Management Committee beneficiaries	29	10*
First exercise date	07.06.2000	01.01.2002
Expiry date	07.04.2009	12.04.2010
Exercise price	EUR81.71	EUR142.50**
Discount to average quoted share price	5%	5%
Number of options exercised at 31 December 2009	713,373	264,250
Number of options lapsed	195,627	40,500
Number of options outstanding	–	604,250

* *Executive Committee.*
** *Discount to HSBC offer price of EUR150 per share.*
1 *Table numbers refer to table models provided by the* Autorité des Marchés Financiers *in its 22 December 2008 recommendation concerning information to be provided in registration documents concerning compensation of corporate officers.*

Key regulations governing share option plans

The regulations governing all share option plans still in force and effect were approved by the Board of Directors at its meeting of 7 May 1997.

However, under these regulations, option holders were entitled to exercise all their outstanding share options during the period of HSBC's public offer for CCF in 2000, with the exception of those awarded in 2000, which were not exercisable before the close of the offer. In view of the adverse tax effects – for both beneficiaries and CCF – that would have resulted from a breach of the lock-up period required under Article 163 bis-C of the French General Tax Code, HSBC offered option holders the benefit of a liquidity contract in the CCF shares issued upon exercise of their options during the offer period, subject to two undertakings:

– not to sell the CCF shares issued upon exercise of their options on terms likely to incur a tax or social security cost to CCF; and,

– to sell to or exchange with HSBC all CCF shares issued upon exercise of their options at the end of the lock-up period.

The liquidity contract sets out the terms and conditions on which CCF employees undertook to sell or exchange their CCF shares, depending on the year in which the options were awarded.

– Options awarded from 1997 to 2000: upon expiry of the lock-up period or upon exercise of the options if later, beneficiaries will exchange all the CCF shares issued pursuant to the exercise of their options for a number of HSBC ordinary shares determined using the ratio applicable to the offer, adjusted for any changes in the share capital of either HSBC or CCF.

HSBC Holdings plc options and shares

Since 2001, following CCF's integration into the HSBC Group, CCF has no longer awarded CCF share options as employees can since then participate in the share option plan offered by the HSBC Group (part B) in the form of a French sub-plan which complies with the legal and tax regulations applicable in France.

Under this plan, HSBC Holdings share options were granted to a number of the HSBC France group's employees in 2001, 2002, 2003, 2004 and 2005.

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

The aim of the HSBC Share Plan is to align the interests of executives to the creation of shareholder value and recognise individual performance and potential. Awards are also made under this plan for recruitment and retention purposes. From 2006, the general policy of the HSBC Group is to award shares instead of share options (except in case of specific legal and tax regulations).

The Group distinguishes three categories of shares:

– "Performance Shares" awarded under specific conditions detailed below;
  - a three-year vesting period;
  - two performance conditions relating to HSBC Group, independent from each other:
    – 50 per cent of the award were subject to the level of the Total Shareholder Return (TSR), measure against a comparator group of 28 major banks;
    – 50 per cent of the award were subject to growth of the earnings per ordinary share published by the Group relating to the three years of the vesting period.

The "Performance Shares" granted in 2006 to the main HSBC France Senior Executives were reduced by around 80 per cent when definitively vested in April 2009. In fact, the condition relating to TSR was only partially achieved at 39.46 per cent. In the same time, the performance condition relating to the earnings per ordinary share failed.

– "Restricted shares" awarded without particular performance conditions but which definitively vest for the employees still working for the Group after a two-year period;
– "Achievement shares" awarded without particular performance conditions but which definitively vest for the employees still working for the Group after a two-year period. They are not awarded anymore as of 2010.

Special report required under the "New Economic Regulations" Act

HSBC France

Since its integration into the HSBC Group in July 2000, CCF has ceased to award CCF options to employees and Executive Directors of the CCF group. Since then and until 2005, HSBC Holdings plc share options had been awarded to employees and Executive Directors.

From 2006, the general policy of the HSBC Group is to award shares instead of share options (see page 192).

Employees, remuneration, share offering and incentive schemes (continued)

Information on shares awarded

HSBC Holdings plc shares awarded in 2009 in respect of 2008

From 2008, only Group General Managers were awarded shares with performance conditions. In respect of 2008, no HSBC France Executive Director was involved in the work of the Group Management Board. Therefore no shares with performance conditions were awarded.

– Shares without performance conditions

	Date of award	Number of shares awarded[1]	Value of the shares under the method used for the consolidated accounts	Vesting date	Date of availability
Value of the shares awarded to Executive Directors					
P Boyles	02.03.2009	176,546	EUR790,006	02.03.2011	02.03.2013
C de Backer	02.03.2009	227,256	EUR1,016,925	02.03.2011	02.03.2013
G Denoyel	02.03.2009	73,517	EUR328,975	02.03.2011	02.03.2013
Total value of the 10 highest awards of shares (employees or former employees)	02.03.2009	1,944,920	EUR8,733,100	02.03.2011	02.03.2013

1 *Including the shares awarded by other companies of the HSBC Group.*

HSBC Holdings plc shares awarded in 2010 in respect of 2009

In respect of 2009, no HSBC France Executive Director, except Stuart Gulliver who does not receive any remuneration from HSBC France, was involved in the work of the Group Management Board. Therefore, no shares with performance conditions are awarded.

– Shares without performance conditions

	Date of award	Number of shares awarded[1]	Value of the shares under the method used for the consolidated accounts	Vesting date (50% and 50%)		Date of availability (50% and 50%)	
Value of the shares awarded to Executive Directors							
P Boyles	01.03.2010	86,641	EUR659,195	01.03.2012	01.03.2013	01.03.2014	01.03.2015
C de Backer	01.03.2010	94,632	EUR720,000	01.03.2012	01.03.2013	01.03.2014	01.03.2015
G Denoyel	01.03.2010	39,430	EUR300,000	01.03.2012	01.03.2013	01.03.2014	01.03.2015
Total value of the 10 highest awards of shares (employees or former employees)	01.03.2010	2,790,687	EUR21,232,642	01.03.2012	01.03.2013	01.03.2014	01.03.2015

1 *Including the shares awarded under the British plan, which dates and vesting rules are different (a third in 2011 – a third in 2012 – a third in 2013).*

Information on options exercised and shares which became available in 2009

CCF options exercised

	Number of options exercised	Exercise price EUR/share	Date of award	Expiry date
Options exercised by Executive Directors	None			
Total 10 highest options exercised (employees or former employees)	None			

HSBC Holdings plc options exercised

	Number of options exercised	Exercise price GBP/share	Date of award	Expiry date
Options exercised by Executive Directors	None			
Total 10 highest options exercised (employees or former employees)	263,935	6.02 to 7.22 (average weighted price: 6.12)	2003 and 2004	2013 and 2014

HSBC Holdings plc shares which became available

As shares were first awarded in 2006 and considering that the shares become available under the rules described above, the shares awarded in 2006 will be available in 2010 or 2011 in case of "Performance Shares".

Options granted by subsidiaries to their employees

Several of CCF's French subsidiaries have established their own share option plans. However, in order to comply with the regulations governing HSBC, CCF decided to cease this practice in 2001, with the exception of two subsidiaries, which were granted special dispensation. These were therefore the only two subsidiaries to have awarded share options during 2001. In 2002, only Banque Eurofin awarded options under the special dispensation granted by CCF. Since 2003, no subsidiary has awarded share options.

No Executive Director of HSBC France or member of the HSBC France's Executive Committee holds options in the HSBC France group's subsidiaries.

HSBC Private Bank France

Following the merger between HSBC Bank France, Banque Eurofin, Banque du Louvre and CCF Banque Privée Internationale on 1 October 2003, options over Banque Eurofin, Banque du Louvre and CCF Banque Privée Internationale shares have been exchanged for options over shares in the merged entity at a parity determined at the time of the merger.

In addition, a liquidity contract has been granted to beneficiaries of HSBC Private Bank France options, which sets out the terms and conditions for their exchange against HSBC Holdings plc ordinary shares on the basis of a parity of 1.83, fixed on 1 October 2003. This parity was adjusted due to the right issue of HSBC Holdings in 2009 and amounts since then to 2.099984.

No Executive Directors of HSBC Private Bank France exercised any HSBC Private Bank France options in 2009.

	Options exercised	Exercise price EUR/share	Date of award	Expiry date
Total options exercised by 10 employees	33,456	10.84 and 12.44 (average weighted price: 11.62)	1999 and 2000	2009 and 2010

Employees, remuneration, share offering and incentive schemes (continued)

Compensation policy

The following information is published in accordance with Article 43-2 of Regulation 97-02[1] and the professional standards published by the *Fédération Bancaire Française* (FBF) concerning corporate governance and variable compensation paid to financial market professionals.

1 – Decision-making process implemented to define the company's compensation policy

As HSBC France is part of an international banking group, its compensation policy is defined at the level of the parent company. As part of a delegation by the HSBC Group's Board of Directors, the HSBC Group's Remuneration Committee is responsible for approving the compensation policy for the Group as a whole.

The compensation policy in place in France falls within the framework of this general policy, while also ensuring that local professional standards and regulations are observed.

Two bodies – the People Committee and the Nomination and Remuneration Committee – play a predominant role in the overall process of implementing this policy.

The People Committee, made up of the main Senior Executives of HSBC France (the Chief Executive Officer, the Deputy Chief Executive Officer in charge of Global Banking and Markets, the Deputy Chief Executive Officer in charge of risk management and the Head of Human Resources), reviews the main aspects of the compensation policy for France and approves it. It ensures that this policy fits in with the general principles of the compensation policy set by the Group for all of its subsidiaries, and in the light of the specific directives set by the global business lines. Lastly, it gives an opinion on the policy's compliance with local professional standards and the recommendations of banking supervisory bodies in France such as the *Commission bancaire*, the *Autorité des Marchés Financiers* and the *Fédération Bancaire Française*.

In addition, as regards variable compensation, it checks that all of the measures in place within the bank's various business lines adhere to the general principles defined in compensation policies by the Group, global business lines and in France and meet the requirements of supervisory bodies. It reviews the variable compensation budgets allocated to French staff by the global business lines on the basis of the performance of each business line and taking account of risk and compliance. It approves the structure of these compensation budgets, i.e. the breakdown between cash and shares, in accordance with the Group's deferral rules and local professional standards.

Lastly, on an individual basis, it reviews and validates the consistency of compensation paid to the company's main Senior Executives, as well as the 20 highest compensation packages in collaboration with the Group's decision-making bodies and global business lines. It ensures that proposed individual compensation packages take account of any individual failures to meet the bank's credit risk, compliance and reputation criteria.

On the basis of an ad hoc summary produced by the People Committee, the Nomination and Remuneration Committee, chaired by an independent Director, gives its opinion on the bank's policies and practices concerning compensation, ensuring its consistency with Group policy and its compliance with applicable local standards, as well as that risk management and compliance issues are taken into account.

Its scope of intervention covers all compensation policies and practices in place within the company, although with a more in-depth review concerning market professionals and Executive Directors.

1 *Paragraph numbering is based on that of Article 43-1 of Regulation 97-02.*

2 – Main characteristics of the bank's compensation policy

HSBC France's compensation policy aims to recognise the skill, expertise and technical knowledge of its employees by means of a base salary and to reward their collective and/or individual performance by means of variable compensation or bonuses.

The aim of individual bonuses is to ensure overall pay is linked to performance, taking account of the Group's overall performance, that of the business line – both of which are measured on a range of financial and non-financial measures including risk-adjusted profit before tax – and that of the team and the employee, depending on the annual performance as assessed according to targets set at the start of the year and which result in the allocation of a performance grade.

The targets set include both financial criteria (individual and collective) and qualitative criteria such as compliance and internal regulations, risk management and working as a team. These targets are set out formally in a table comprising four aspects (Finance, Clients, Processes and Employees) and are redefined at the start of each year.

Bonuses paid to employees are spread out over time by means of a deferred payment mechanism, the rules for which are defined yearly by the HSBC Group. In respect of 2009 (compensation paid in 2010), the deferral rate for the highest compensations paid was at least 60 per cent.

Furthermore, in order to align employees' interests with those of shareholders, most of bonuses are paid in the form of shares. Half of these shares vests on each of the second and third anniversaries of the date of the award and is not available for sale for a period of four years and the other half for a period of five years.

Lastly, as of 2010, a clawback system applies to all employees receiving deferred bonuses. This allows the HSBC Group's Remuneration Committee to cancel, reduce or amend all or part of bonuses awarded on the basis of the employee's behaviour or factors justifying such action.

Guaranteed bonuses are highly exceptional and limited to one year.

3 – Consolidated quantitative information about compensation paid to executive members and financial market professionals, whose activities have a material impact on the company's risk exposure

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

a Table 1 - Amounts of compensation paid corresponding to the financial year, divided between the fixed and variable portion, and number of beneficiaries

	(1) Number of people concerned	(2) Total 2009 compensation (in EUR)	(3) Total fixed compensation (in EUR)	(4) Total variable compensation (in EUR)
Executive members	3	4,125,145	1,226,486	2,898,659
Financial market professionals	47	53,719,610	4,488,008	49,231,602

The amount in column 2 is equal to the sum of columns 3 and 4.

Employees, remuneration, share offering and incentive schemes (continued)

b Table 2 - Amounts and form of variable compensation, divided between payments in cash, shares and securities backed by shares, and other

	(1) Number of people concerned	(2) Total variable compensation (in EUR)	(3) Immediate payment in cash (in EUR)	(4) Deferred payment (in EUR)	(5) Deferred payment in cash (in EUR)	(6) Deferred payment in shares (in EUR)
Executive members	3	2,898,659	1,219,464	1,679,195	–	1,679,195
Financial market professionals	47	49,231,602	17,910,592	31,321,010	2,500,000	28,821,010

Columns 1 and 2 are identical to columns 1 and 4 of table 1.

The deferred portion is expressed as the value at the time the compensation was awarded.

The amount in column 2 is equal to the sum of columns 3 and 4.

The amount in column 4 is equal to the sum of columns 5 and 6.

c Table 3 - Amounts of outstanding deferred compensation, divided between vested and unvested compensation

(in euros)	Amount of unvested deferred compensation
Executive members	1,679,195
Financial market professionals	31,321,010

This shows outstanding deferred compensation corresponding to total unvested deferred compensation, i.e. compensation that has been awarded but not yet paid (cash) or delivered (securities) and which is still subject to the future clawback mechanism or early departure.

This must include unvested deferred compensation awarded in respect of the previous financial year, as well as unvested deferred compensation relating to prior years. Once up to speed, outstandings cover payments for the year of allocation and remaining deferred compensation for the previous two years. Therefore, deferred compensation awarded in respect of 2009 will be included in outstandings for 2010, 2011 and 2012. 2009 will be definitively purged in 2013 on the basis of the bank's 2012 results.

As an exception to this principle, as professional standards apply as of sums awarded in respect of 2009, outstandings for 2010 will include only deferred compensation awarded in respect of 2009. The amount indicated is therefore identical to that in column 4 of table 2.

The sums paid or securities delivered - even if they are still subject to a holding requirement - after application of the clawback mechanism are no longer included in outstandings.

Securities and equivalent instruments are valued on the basis of their value at the award.

d *Table 4 - Amounts of outstanding deferred compensation awarded during the financial year, paid or reduced, after adjustments according to results*

(in euros)	(1) Amount of variable compensation awarded	(2) Amount of deferred compensation awarded	(3) Amount of deferred compensation paid	(4) Amount of reductions made from deferred compensation
Executive members	2,898,659	1,679,195	–	–
Financial market professionals	49,231,602	31,321,010	–	–

Columns 1 and 2 correspond to columns 2 and 4 of table 2.

Column 3 corresponds to the sums paid or securities delivered – even if they are still subject to a holding requirement – after adjustment relating to the bank's results for the financial year regardless of the year in which the securities were awarded.

Column 4 corresponds to the amount of reductions made from deferred compensation relating to the bank's results for the financial year regardless of the year in which the securities were awarded.

Securities and equivalent instruments are valued on the basis of their value at the award.

This table was not filled in for 2010 as professional standards only apply as of 2010.

e *Table 5 - Payments made during the year in respect of new recruits or redundancy compensation, and number of beneficiaries of such payments*

	(1) Amount of severance payment paid and number of beneficiaries		(2) Amount of sums paid for new recruits and number of beneficiaries	
(in euros)	Sums paid	Number of beneficiaries	Sums paid	Number of beneficiaries
Executive members	–	–	–	–
Financial market professionals	184,585	2	–	–

Column 1 corresponds to all sums paid on termination of the employment contract (severance payment), which includes redundancy compensation and contractual indemnities.

Column 2 corresponds to sums paid on hiring a new employee (excluding guaranteed bonuses).

f *Table 6 - Redundancy compensation guarantees awarded in respect of the financial year, number of beneficiaries and highest amount awarded to a single beneficiary*

	Severance pay guarantees		
(in euros)	Total	Number of beneficiaries	Highest guarantee
Executive members	–	0	–
Financial market professionals	–	0	–

This is aimed at "promised" severance pay granted during the reference financial year.

Recent developments and outlook

Post-balance sheet events

New products and services are frequently offered to the customers of the HSBC France group. Information is available on the group's websites, and particularly in the press releases that can be viewed on the www.hsbc.fr website.

There has been no significant deterioration or change affecting the issuer's or its subsidiaries' financial or sales situation or outlook since 31 December 2009, the date of the last audited and published financial statements.

The main post-balance sheet events are:

Appointments and Changes to Executive Management of HSBC France (press release dated 25 January 2010)

Peter Boyles, who has served as CEO for HSBC France since September 2007, has been appointed CEO of HSBC for Continental Europe in addition to his new role as Deputy Chairman of HSBC France. He will be based in Paris.

Christophe de Backer, Deputy to the CEO since September 2007, will succeed Peter Boyles as CEO of HSBC France.

Jean Beunardeau, Senior Corporate Vice-President has been appointed Deputy CEO and Deputy to the CEO, in addition to his current role as Head of Global Banking and Markets France.

Gilles Denoyel will remain as Deputy CEO and Chief Risk Officer, and will continue to be responsible for relations with Regulators.

Stuart Gulliver, HSBC Group's Chairman for Europe, the Middle East and Global Businesses, will continue to serve as Chairman of HSBC France.

The appointments will be effective as of 1 February 2010.

HSBC France signs sale and leaseback agreement for its head office on Champs-Elysées in Paris (press release dated 26 February 2010)

HSBC France has sold its properties on avenue des Champs-Elysées and rue Vernet in Paris for EUR 400 million.

The properties are sold to an OPCI real estate mutual fund managed by Ciloger, as the City of Paris decided not to exercise its right of pre-emption. HSBC France has agreed to a nine-year rental contract, with the possibility of withdrawing in the fourth, fifth and sixth year.

Outlook

In 2010, in an uncertain environment, HSBC France will continue to expand on the back of a clear strategy focusing on target clients, the quality of its brand name and the skills and availability of its employees.

In the space of just over a year, the 2010 Development Plan has allowed for the optimisation of the Retail Banking business's organisational structure around one brand, one bank, one IT platform and the specialisation of the distribution network centred around five regions. Retail Banking will be further enhanced in 2010 with:

– continuing efforts to specialise the organisational structure to meet customers' needs;

– a focus on commercial activity;

– improved processes and simplified procedures;

– continuation of the real estate plan.

A new branch organisational model will therefore be implemented with clarification of each person's role, which will double selling time at branches, as well as simplification of key processes and standardisation of working practices. The network's administrative duties will also be reduced thanks to the simplification, digitalisation and centralisation of duties performed at branches and the roll-out of 101 multi-function machines (cheques and cash deposit) with improved features. In addition, in order to better meet the needs of professional customers by developing customer managers' expertise, the organisation of professional banking activities will change, with customer managers specialising in each market centred around the creation of a "Professionals" segment for self-employed professionals and an "Entrepreneurs" segment for professionals operating as a company. Lastly, as part of the real estate plan, HSBC Group branch models will be rolled out at the 100 largest branches, doubling the number of Premier centres from 19 to 42 and with the adoption of the new HSBC Group design at 58 HSBC France branches.

Emphasis will also be placed on synergies between Retail Banking, Commercial Banking, Global Banking and Markets, and Private Banking in France and with the HSBC Group.

HSBC France will continue in 2010 to take a highly cautious approach to managing its capital and the liquidity of its balance sheet under uncertain global economic and financial conditions. The policy of diversified financing will be maintained and will continue to be adapted, in particular according to market developments and to allow for the development of the bank's business lines. In January 2010 and March 2010, HSBC Covered Bonds (France) issued EUR 1.8 billion of covered bonds.

Persons responsible for the Registration Document and for auditing the financial statements

Person responsible for the Registration Document

Mr Christophe de Backer, Chief Executive Officer.

Statement by the person responsible for the Registration Document

I declare, after taking all reasonable measures for this purpose and to the best of my knowledge, that the information contained in this Reference Document is in accordance with the facts and that it makes no omission likely to affect its meaning.

I declare, to the best of my knowledge, that the accounts have been prepared in accordance with applicable accounting standards and are a fair reflection of the assets, liabilities, financial position and profit or loss of the company and all the undertakings included in the consolidation scope, and that the management Report on pages 2 to 7 presents a fair view of the company's business, results and financial position and that of all the undertakings included in the consolidation scope, as well as a description of the main risks and uncertainties to which they are exposed.

I have received a completion letter from the Auditors stating that they have audited the information contained in this Document about the financial position and accounts and that they have read this Document in its entirety.

The historical financial data presented in this Document has been discussed in the Statutory Auditors' reports found on pages 156 to 157 on consolidated financial statements and on page 158 on the parent company financial statements, which contain remarks.

Paris, 28 April 2010

Christophe de Backer, CEO

Persons responsible for auditing the financial statements

	Date first appointed	Date re-appointed	Date term ends
Incumbents			
KPMG [1] Represented by Pascal Brouard [2] 1, cours Valmy 92923 Paris La Défense Cedex	2001	2006	2012
BDO France – Léger & Associés [3] Represented by Michel Léger 113, rue de l'Université 75007 Paris	2007	–	2012
Alternates			
Gérard Gaultry [1] 1, cours Valmy 92923 Paris La Défense Cedex	2001	2006	2012
François Allain [1] 2, rue Hélène-Boucher 78286 Guyancourt Cedex	2007	–	2012

1 *Member of the* Compagnie Régionale des Commissaires aux Comptes de Versailles.
2 *KPMG represented by Pascal Brouard as of financial year 2009.*
3 *Member of the* Compagnie Régionale des Commissaires aux Comptes de Paris.

Auditors' fees paid in 2009 within the HSBC France group are available in Note 38 to the consolidated financial statements on page 155.

Cross-reference table

This cross-reference table refers to the main headings required by the European Regulation 809/2004 (Annex XI) implementing the directive known as "Prospectus".

Cross-reference table (continued)

According to Article 28 of the European Regulation 809/2004, are included by reference in this Registration Document, the consolidated financial statements for the year ended 31 December 2008 and the Statutory Auditors' report on the financial consolidated statements, presented on pages 59 to 141 and 142 to 143 of the Annual Report and Accounts 2008 filed with the AMF on 29 April 2009 under reference number D09-0344.

This Registration Document includes the annual financial report:

These documents are available on the website www.hsbc.fr and on the AMF's website www.amf-france.org.

Network of offices

HSBC NETWORK IN FRANCE

HSBC France
401 locations
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 70 40
Facsimile: 33 1 40 70 70 09
Web: www.hsbc.fr

HSBC FRANCE SUBSIDIARIES

DISTRIBUTION

HSBC Factoring (France)
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 40 70 72 00
Facsimile: 33 1 40 70 72 20

GLOBAL BANKING AND MARKETS

HSBC Securities (France) SA
103, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 56 52 44 00
Facsimile: 33 1 56 52 44 10

ASSET MANAGEMENT

HSBC Global Asset Management (France)
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 46 85
Facsimile: 33 1 41 02 48 50

Halbis Capital Management (France)
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 46 86

Sinopia Asset Management
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92800 Paris La Défense
Telephone: 33 1 41 02 52 00
Facsimile: 33 1 41 02 52 20

HSBC Epargne Entreprise (France)
15, rue Vernet
75008 Paris
Telephone: 33 1 40 70 24 27
Facsimile: 33 1 41 02 45 67

Service Epargne Entreprises (S2E)
Subsidiary of HSBC Epargne Entreprise (France)
32, rue du Champ de Tir
44300 Nantes
Telephone: 33 2 51 85 59 88
Facsimile: 33 2 51 85 66 66

PRIVATE BANKING

HSBC Private Bank France
4 offices
109, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 49 52 20 00
Facsimile: 33 1 49 52 20 99
Web: www.hsbcprivatebankfrance.com

HSBC Private Wealth Managers
109, avenue des Champs-Elysées
75419 Paris Cedex 08
Telephone: 33 1 49 52 29 00
Facsimile: 33 1 49 52 28 99
Web: www.hsbcprivatebankfrance.com

OTHER LOCATIONS OF THE HSBC FRANCE GROUP

HONG KONG
Sinopia Asset Management (Asia-Pacific) Limited
Level 22, HSBC Main Building
1 Queen's Road Central, Hong Kong
Telephone: 85 02 2284 1600
Facsimile: 85 02 2284 1601

ITALY
HSBC Global Asset Management (France)
Piazzeta Bossi, 1
20121 Milan
Telephone: 39 02 72 437 496
Facsimile: 39 02 72 437 490

LUXEMBOURG
LGI
Subsidiary of HSBC Private Bank France
16, boulevard d'Avranches
L-1160 Luxembourg
Telephone: 352 22 38 33 1
Facsimile: 352 22 38 34

SPAIN
HSBC Global Asset Management (France)
Plazza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
Telephone: 34 91 456 6970
Facsimile: 34 91 456 6111

SWEDEN
HSBC Global Asset Management (France)
Birger Jarlsgatan 25
SE-111 45 Stockholm
Telephone: 46 8 4545435
Facsimile: 46 8 4545451

SWITZERLAND
HSBC Global Asset Management (Switzerland) AG
Gartenstrasse 26, P.O. Box,
CH-8027 Zürich
Telephone : 41 44 206 26 00
Facsimile : 41 44 206 26 44

UNITED KINGDOM
Sinopia Asset Management (UK) Limited
78 Saint James Street
London SW1A 1EJ
Telephone: 44 20 7991 8888
Facsimile: 44 20 7024 1999

OTHER LOCATIONS OF THE HSBC GROUP IN FRANCE

HSBC Bank plc Paris Branch
15, rue Vernet
75008 Paris
Telephone: 33 1 40 70 70 40
Facsimile: 33 1 58 13 96 48

HSBC Assurances Vie (France)
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92009 Paris La Défense
Telephone: 33 1 41 02 40 40
Facsimile: 33 1 41 02 49 84

HSBC Assurances IARD (France)
Immeuble Ile-de-France
4, place de la Pyramide
La Défense 9
92009 Paris La Défense
Telephone: 33 1 41 02 40 40
Facsimile: 33 1 41 02 49 84

Network of offices (continued)

HSBC GROUP INTERNATIONAL NETWORK*

Around 8,000 offices in 88 countries and territories:

EUROPE	OFFICES
Armenia	7
Austria	1
Belgium	2
Channel Islands	39
Cyprus	1
Czech Republic	4
France	423
Georgia	2
Germany	14
Greece	20
Hungary	1
Ireland	7
Isle of Man	5
Italy	3
Luxembourg	4
Malta	49
Monaco	2
Netherlands	1
Poland	16
Russia	8
Slovakia	2
Spain	4
Sweden	2
Switzerland	16
Turkey	339
Ukraine	1
United Kingdom	1,555

ASIA-PACIFIC	
Australia	34
Bangladesh	11
Brunei Darussalam	12
China	170
Cook Islands	1
Hong Kong SAR	330
India	150
Indonesia	211
Japan	14
Kazakhstan	4
Korea, Republic of	15
Macau SAR	7
Malaysia	51
Maldives	1
New Zealand	11
Pakistan	12
Philippines	27
Singapore	27
Sri Lanka	16
Taiwan	44
Thailand	1
Vietnam	12

AMERICAS	OFFICES
Argentina	181
Bahamas	6
Bermuda	14
Brazil	1,518
British Virgin Islands	3
Canada	268
Cayman Islands	13
Chile	3
Colombia	28
Costa Rica	39
El Salvador	82
Guatemala	1
Honduras	79
Mexico	1,206
Nicaragua	1
Panama	78
Paraguay	6
Peru	22
United States of America	528
Uruguay	12
Venezuela	1

MIDDLE EAST AND AFRICA	
Algeria	2
Bahrain	9
Egypt	79
Iran	1
Iraq	17
Israel	3
Jordan	5
Kuwait	1
Lebanon	8
Libya	2
Mauritius	12
Nigeria	1
Oman	9
Palestinian Autonomous Area	1
Qatar	6
Saudi Arabia	94
South Africa	5
United Arab Emirates	30

* *At 1 March 2010.*
Associated companies are included in the network of offices.

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C de Backer: Bruno Des Gayets
J Beunardeau, G Denoyel, P Pontet: Tina Merandon

HSBC

The world's local bank

HSBC France
103, avenue des Champs-Elysées
75419 Paris Cedex 08
France
Telephone: (33 1) 40 70 70 40
Facsimile: (33 1) 40 70 70 09