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HSBC SFH (France) S.A.

**Statutory Auditors' Review
Report on condensed financial
statements as of 30 June 2013**

Period from 1st January to 30 June 2013
HSBC SFH (France) S.A.
15 rue Vernet 75008 Paris
This report contains 3 pages
Reference :



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

HSBC SFH (France) S.A.

Registered office : 15 rue Vernet 75008 Paris
Share capital : €.54 750 000

Statutory Auditors' Review Report on condensed financial statements as of 30 June 2013

Period from 1st January to 30 June 2013

Dear Sir or Madam

In our quality of statutory auditors of HSBC SFH (France) S.A. and in answer to your request, we conducted a review of the balance sheet as of 30 June 2013, the income statement for the period from 1st January to 30 June 2013, together with the Summary of Notes including summary of significant accounting policies and major events of the period ("the condensed financial statements"), which are attached to this report.

These condensed financial statements are the responsibility of the Company's President. Our responsibility is to express a conclusion on these condensed financial statements based on our review.

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



*HSBC SFH (France) S.A.
Statutory Auditors' Review Report on condensed
financial statements as of 30 June 2013
19 juillet 2013*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed financial statements as of June 30, 2013 and for the six-month period then ended are not prepared in conformity with the French accounting principles described in the notes attached to these financial statements.

Statutory auditors

Paris La Défense and Paris, on July 19, 2013

KPMG Audit
Département de KPMG S.A.

BDO France - Léger & associés

Pascal Brouard
Partner

Michel Léger
Partner

HSBC SFH France

S.A. with capital share of EUR 54,750,000

15, rue Vernet
75008 PARIS

RCS Paris 480 034 917

HSBC SFH France

2013 BALANCE SHEET

(in EUR)

| ASSETS | 30/06/13 | 31/12/12 |
|--|----------------------|----------------------|
| Cash and balances at central banks | | |
| Treasury bills and money-market instruments | | |
| loans and advances to banks | 3,353,784,871 | 2,128,752,155 |
| loans and advances to customers | | |
| Bonds and other fixed-income securities | | |
| Equities and other variable-income securities | | |
| Equity investments and other securities held for long-term | | |
| Investments in affiliates | | |
| Intangible fixed assets | | |
| Tangible fixed assets | | |
| Other assets | 52,483 | 92,174 |
| Prepayments and accrued income | 14,449,462 | 8,771,761 |
| TOTAL ASSETS | 3,368,286,816 | 2,137,616,090 |
| Financing commitments given | | |
| Guarantee commitments given | | |
| Securities commitments given | | |
| Transactions involving forward financial instruments | | |

HSBC SFH France

2013 BALANCE SHEET

(in EUR)

| LIABILITIES | 30/06/13 | 31/12/12 |
|--|----------------------|----------------------|
| Due to credit institutions | | |
| Customer accounts | | |
| Debt securities | 3,269,815,519 | 2,049,295,011 |
| Other liabilities | 389,383 | 341,203 |
| Accruals and deferred income | 19,430,329 | 9,379,798 |
| Provisions | | |
| Subordinated debt | 23,303,349 | 23,304,360 |
| Reserve for general banking risks | | |
| Share capital | 54,750,000 | 54,750,000 |
| Additional paid-in capital | | |
| Merger premium | | |
| Reserves | 40,169 | 32,651 |
| Retained earnings | 505,549 | 362,701 |
| Net profit of the year | 52,517 | 150,366 |
| TOTAL LIABILITIES | 3,368,286,816 | 2,137,616,090 |
| Financing commitments received | | |
| Guarantee commitments received | 4,299,153,595 | 3,997,207,897 |
| Securities commitments received | | |

HSBC SFH France

NET INCOME 2013

(in EUR)

| INCOME STATEMENT | 30/06/13 | 31/12/12 | 30/06/12 |
|---|----------------|----------------|----------------|
| Interest and similar income | 36,624,407 | 63,543,608 | 31,655,599 |
| Interest and similar expense | -36,716,929 | -63,693,203 | -31,732,293 |
| Commission income | 444,452 | 768,717 | 345,180 |
| Commission expense | | | |
| Gains or losses on trading account securities | -19,128 | 16,069 | 10,010 |
| Other banking income (charges) | | | |
| NET OPERATING INCOME | 332,802 | 635,191 | 278,496 |
| General operating expenses | -256,100 | -400,378 | -198,806 |
| GROSS OPERATING INCOME | 76,701 | 234,813 | 76,690 |
| OPERATING PROFIT | 76,701 | 234,813 | 76,690 |
| NET OPERATING PROFIT BEFORE TAX | 76,701 | 234,813 | 76,690 |
| Exceptional items | | | |
| Income tax | -24,184 | -84,447 | -25,931 |
| NET INCOME | 52,517 | 150,366 | 53,758 |

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT EVENTS

On the 16th of April 2013, HSBC SFH (France) issued bonds amounting to EUR 1.25 billion with a ten-year and six-month maturity, paying the market swap +35 basis points with a coupon of 2.00% to be paid to the investors.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting principles

The financial statements have been prepared in accordance with generally accepted accounting principles:

- Going concern,
- Consistency of accounting methods from one financial year to the other,
- Accruals basis of accounting,
- Compliance with the general rules for the preparation and presentation of annual financial statements.

The financial statements and their notes have been prepared and presented in accordance with the amended regulation 2000.03 of the Accounting Rules Committee, the instructions in force of the Banking Commission and the generally accepted accounting principles in the French banking industry.

On the 1st of January 2005, the company Hervet Participations has been integrated to tax consolidation group of HSBC BANK PLC PARIS BRANCH. On the 20th of June 2008, the Combined General Meeting of shareholders decided to change the name of "Hervet Participations" to "HSBC Covered Bonds (France)". On the 21st of April 2011, the Combined General Meeting of shareholders decided to change the name of "HSBC Covered Bonds (France)" to "HSBC SFH (France)". The company's business purpose is set out in the Article 2 of the Articles of Incorporation updated on the 31st of August 2011, which stipulates:

"In accordance with laws and regulations applicable to Housing Finance Companies, the Company's business purpose is to consent and / or finance Home loans and hold corporate securities (the "Corporate business purpose").

Home loans made and / or funded by the Company are loans, in whole or part of, to finance a residential property located in France or in another member state of the European Union or in another state part of the Agreement on the European Economic Area or in a state benefiting from the highest level of quality of credit issued by an

external rating agency credit recognized by the banking supervisor's (Autorité de Contrôle Prudentiel - ACP) and secured by (a) a mortgage or a related guarantee at least equivalent, or (b) a bond granted by a credit institution or an insurance company ("Home loans").

To finance the operations mentioned above, the Company may issue housing finance bonds benefiting from the privilege defined in Article L. 515-19 of the Monetary and Financial Code and raise other sources, even by issuing financial instruments or debt securities, on the basis of foreign law (including debt securities registered under German law (Nammensschuldverschreibung) whose contract or document for public information (within the meaning of Article L. 412-1 of the Code) or equivalent document required for admission on foreign regulated markets mentioned that privilege. "

2.2 – Changes in accounting policies

No change in accounting method during the first half of 2013.

2.3 - Valuation principles and methods

2.3.1 ACCRUED INTERESTS RECEIVABLE AND PAYABLE

Accrued interests receivable and payable are recorded in the balance sheet in a related creditor (respectively debtor) account.

2.3.2 LOANS AND ADVANCES TO BANKS

It should be noted that the origination and management fees are spread on a straight-line basis throughout the term of the loan.

In February 2012, the certificates of deposit have been replaced by a fixed term deposit.

The fixed term deposits are booked for their acquisition values.
Accrued interests are recorded in the related accounts.

On the 20th of January 2010, the company granted a loan of EUR 1.5 billion to HSBC FRANCE, with a seven-year term, paying an interest rate of 3.375%.
Accrued interests are recorded in the related account.

On the 7th of April 2010, the company granted two new loans to HSBC FRANCE of respectively, CHF 200 million, with a maturity of five years and five months, paying an interest rate of 1.75% for the first one, and a maturity of eight years and five months, paying an interest rate of 2.375% for the second one.
Accrued interests are recorded in the related account.

On the 24th of December 2010, the company granted a fourth loan of CHF 200 million to HSBC FRANCE, with a maturity of eight years and four months, paying an interest rate of 2.00%.

Accrued interests are recorded in the related account.

Lastly, on the 16th of April 2013, the company granted a loan of EUR 1.25 billion to HSBC FRANCE, with a ten-year and six-month term, paying an interest rate of 2.00%.

Accrued interests are recorded in the related account.

The CHF claims as of 30th June 2013, were translated into euro, in the balance sheet, at the official exchange rate on the reporting date.

2.3.3 AVAILABLE-FOR-SALE PORTFOLIO

The certificates of deposit and the SICAV mutual funds are accounted for at their acquisition value.

Accrued interests are recorded in the related receivable account.

The certificates of deposit have been replaced by a fixed term deposit in February 2012.

The entire SICAV portfolio has been sold in October 2011.

2.3.4 DEBT REPRESENTED BY A SECURITY

It should be noted that the issuance premiums of the covered bonds are spread on a straight-line basis from the date of issuance to the maturity date. Similarly, the issuing charges of the covered bonds are spread on a straight-line basis from the date of issuance to the maturity date.

On the 20th of January 2010, the company issued bonds amounting to EUR 1.5 billion, with a seven-year maturity, paying the market swap +40 basis points with a coupon of 3.375% to be paid to the investors.

Accrued interests are recorded in the related account.

On the 7th of April 2010, the company issued two new bonds of, respectively, CHF 200 million, with a maturity of five years and five months, paying the market swap +10 bp with a coupon of 1.75% for the first one, and a maturity of eight years and five months, paying the market swap +14 bp with a 2.375% coupon for the second one.

Accrued interests are recorded in the related account.

On the 24th of December 2010, the company issued a third CHF 200 million bond, with a maturity of eight years and four months, paying the Benchmark swap +24 bp with a 2.00% coupon.

Accrued interests are recorded in the related account.

Lastly, on the 16th of April 2013, the company issued bonds amounting to EUR 1.25 billion, with a ten-year and six-month maturity, paying the market swap +35 basis points with a coupon of 2.00% to be paid to the investors. Accrued interests are recorded in the related account.

The CHF claims as of 30th June 2013, were translated into euro, in the balance sheet, at the official exchange rate on the reporting date.

In accordance with regulation 2000.03 amended of the Accounting Rules Committee, the following information is provided:

Issuance premium remaining to be amortised as of 30th June 2013:

EUR 7,292,630.86

Premium remaining to be amortised as of 30th June 2013:

EUR 154,839.24

Issuing charges remaining to be amortised as of 30th June 2013:

EUR 7,156,831.01

2.3.5 SUBORDINATED DEBT

The subordinated loan is booked at its acquisition cost. Accrued interests are recorded in the related payable account. The loan was agreed with HSBC FRANCE.

2.3.6 SHARE CAPITAL

HSBC France owns 99.99% of HSBC SFH (France)' share capital.

The share capital stands at EUR 54,750,000, made up of 3,650,000 shares with a nominal value of EUR 15 each.

2.3.7 INTEREST AND SIMILAR INCOME

The interest paid and received is recorded on an *accruals basis* in the profit and loss account.

Fees for granting a loan are treated as additional interest income and are spread on a straight-line basis over the effective term of the credit. As of first half of 2013, the corresponding amount recognised in the profit and loss statement was EUR 1,333,773.

2.3.8 OFF-BALANCE SHEET ITEMS

- Commitments

Loans granted to HSBC France by HSBC SFH (France) are guaranteed by eligible housing loans granted by the retail branches of HSBC France.

On the 30th June 2013, the received guarantee amounted to EUR 4,299,153,595.

The housing credits that guarantee the loans granted by HSBC SFH (France) to HSBC France are financial guarantees whose characteristics are described in Articles L.211-38 and seq. of the Monetary and Financial Code.

3 IDENTITY OF THE PARENT COMPANY USING THE GLOBAL CONSOLIDATION METHOD

HSBC FRANCE
103, avenue des Champs Elysées
75008 PARIS

4 DISCLOSURE RELATING TO CREDIT RISK

The sole counterparty of HSBC SFH (France) is HSBC France.

Loans granted by HSBC SFH (France) enable HSBC France to refinance itself.

5 INFORMATION RELATING TO INTEREST AND FOREIGN EXCHANGE RATE RISK

The interest and currency risks of HSBC SFH (France) are limited, since the loans granted by HSBC SFH (France) to HSBC France are backed by the covered bond issues.

6 EXPOSURE TO THE SOVEREIGN RISK

The HSBC SFH (France) entity holds no financial assets with sovereign risk.

7 INFORMATION ON RELATED PARTIES

In accordance with the ANC 2010-04 recommendations, the list of transactions of HSBC SFH (France) with related parties is not subject to information in notes, as transactions are performed to normal market conditions.