HSBC

News Release

20 February 2018

HSBC FRANCE
2017 ANNUAL AND 2nd HALF RESULTS – HIGHLIGHTS

At the 20 February 2017 meeting, HSBC France's Board of Directors reviewed the second half year results and approved the bank's consolidated financial statements for year 2017.

HSBC France continues to deploy its strategy based on a universal banking model, with the support of the HSBC Group. HSBC France's performance in 2017 was achieved in an environment of gradually improving economic growth both in France and abroad. However, historically low interest rates in Europe impacts the profitability of Retail Banking in France.

Year ended 2017

Consolidated profit before tax was €219m, down from €432m in 2016.
These results include:

- significant items, restated within the HSBC Group's adjusted performance framework described in appendix (€-114m in 2017 and €-231m in 2016);
- in 2016, exceptional positive items amounting to €180m, mainly to the partial discontinuation of macro-hedging relationships held by Balance Sheet Management;
- change in PVIF[1] (€-3m in 2017 as opposed to €-26m in 2016);
- change in market value of trading debt in issue due to credit spread (€-86m in 2017 and €16m in 2016).

Excluding all these items, HSBC France's profit before tax went down 14% mainly on Retail banking and wealth management, linked with the lasting low interest rates environment.

The phased-in total capital ratio was 14.1% at 31 December 2017 versus 13.2% at 31 December 2016. At 31 December 2017, the phased-in CET1 ratio was 13.1% and the phased-in leverage ratio was 3.7%. **The Liquidity coverage ratio** (LCR), calculated according to the EU's delegated act, was 149%.

Net operating income before LICs was €1,907m compared to €2,317m in 2016.
Fall in revenue is explained by:

- significant revenue items, restated within the HSBC Group's adjusted performance framework described in appendix (€-24m in 2017 and €67m in 2016);
- in 2016, an exceptional €122m gain relating to the partial discontinuation of macro-hedging relationships held by Balance Sheet Management and the €58m positive impact linked with the currency effect on the investment in a leasing subsidiary located outside France;
- change in PVIF (€-3m in 2017 as opposed to €-26m in 2016);
- change in market value of trading debt in issue due to credit spread (€-86m in 2017 and €16m in 2016);

[1] *Present value of in-force long-term insurance business (see appendix)*

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- In 2017 a €82m gain on a derivative associated with an advance on a corporate customer, fully offset by a loan impairment charge.

Net interest margin down 14 per cent suffered from the impact of low interest rates which were not fully offset by an increase in deposits and loans volume. Net fee income has decreased 11 per cent compared to 2016 as there was a good momentum in GB&M.

Loan impairment charges were €81m in 2017 versus €73m in 2016. The increase was due to a loss on a receivable from a Global Banking counterparty totalling €82m, fully offset by the gain recognised on an associated hedging derivative. Excluding this specific situation, which did not affect HSBC France's P&L, there was a net release of credit risk provisions. This reflects both the improved financial situation of businesses and HSBC France's rigorous credit risk management.

Operating expenses amounted to €1,607m in 2017, compared with €1,812m in 2016. These include significant cost items, restated within the HSBC Group's adjusted performance framework described in appendix (€-90m in 2017 and €-298m in 2016);
HSBC France is continuing its programme of spending and investing for growth as part of the HSBC Group's strategic initiatives, particularly in the digital field.

Profit attributable to shareholders of the parent company in 2017 was €177m.

The consolidated balance sheet of HSBC France showed total assets of €168bn at 31 December 2017, stable relative to the 31 December 2016 figure of €169bn.

Second half of 2017

Reported consolidated profit before tax was €23m, down from €60m in the second half of 2016.

Net operating income before LICs was €873m compared to €1,017m in the second half of 2016. Profit in the second half of 2017 is negatively impacted by a lower performance in fixed income activities caused by difficult market conditions in the fourth quarter of 2017 as well as the PVIF movement (€-32m in the second half of 2017 and €+70m in the same period of 2016). Retail banking and Commercial banking suffered from the continued low interest rates environment.

Loan impairment charges were €85m in the second half of 2017 versus €49m in 2016. The increase was due to a loss on a receivable from a Global Banking counterparty totalling €82m, fully offset by the gain recognised on a hedging derivative. Excluding this specific situation, which did not affect HSBC France's P&L, credit risk provisions fall sharply. This reflects both the improved financial situation of businesses and HSBC France's rigorous credit risk management.

Operating expenses amounted to €765m in the second half of 2017, compared with €908m in 2016, when there was a goodwill impairment charge totalling €127m and expenses relating to the voluntary redundancy plan announced in September 2016.

REVIEW BY BUSINESS LINE

Global Banking and Markets

HSBC France benefits from a unique international positioning allowing it to support corporate, institutional and government clients with their projects in France and abroad. In capital markets, France is the Group's platform for euro fixed income products and structured rates derivatives.

Adjusted profit before tax was €217m compared to €295m in 2016.
These results include:

- in 2016, the €58m positive impact linked with the currency effect on the investment in a leasing subsidiary located outside France;
- change in market value of trading debt in issue due to credit spread (€-86m in 2017 and €16m in 2016).

Despite a lower performance in the fourth quarter of 2017, HSBC strengthened its position as the leader among European public-sector issuers, ranking 2nd in the Euro SSA league tables[2]. In that segment, HSBC stood out by participating in Greece's return to the markets and the country's largest debt swap transaction. The bank ranked 1st in the French IPO league tables[2].
In 2017, HSBC assisted its clients in all major segments of the international markets –high-yield debt, hybrids, multi-tranche/multi-currency issues, private placements including *Schuldscheindarlehen* – and provided services to the widest variety of issuers in terms of profile and credit quality. HSBC strengthened its position in green and social responsibility bond issues, with a record of 13 transaction led in that category and ranks 2nd in the French league tables[3].

Revenue generated by French clients in international markets rose by 7% relative to 2016 at constant exchange rates. Revenue generated in France by clients of other HSBC Group entities increased by 10%. That performance illustrates the value added of the HSBC model for international corporates.

Commercial Banking

In 2017, Commercial Banking increased its standing as a partner of choice for small- and medium-sized French businesses, particularly in their international expansion.

Adjusted profit before tax was €180m compared to €146m in 2016, benefitted from a sharp decrease in loan impairment charges and volumes growth more than offsetting the impact of low interest rates on margins.

An increase in loans outstanding in a gradually recovering economy: Commercial Banking increased its loans outstanding to €11.4bn, an increase of 9% in a year, driven by medium- and long-term loans witnessing the recovery in investment.
Increasing deposits: deposits grew to €10.9bn in 2017, rising by 6%.

International strategy paying off: HSBC France confirmed its status as a key partner for French companies seeking to establish themselves abroad, and revenue generated by French customers in other Group entities accounted for almost one-third of the revenues they generate in France. In 2017, those revenues rose another 22%.
At the same time, revenues generated by Commercial Banking in France from clients of other HSBC Group entities increased by 27%.

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[2] source Dealogic

[3] source Bloomberg (France Green/ Sustainability)

Retail Banking and Wealth Management

HSBC France adapts to new consumer behaviours of its clients and is committed to develop state of the art digital offerings allowing customers to manage as they intend to both their accounts and wealth while still benefitting from a relationship model and wealth management experts advisory.

In 2017, RBWM has been affected by the continuing low rate environment. Adjusted profit before tax was €6m in 2017 compared to €68m the previous year. These results include the economic PVIF[4] movement related to RBWM activities (€-9m in 2019 and €-33m in 2016).

Net interest income fell in 2017 as a result of the historically low interest rate environment and ongoing mortgage renegotiations, notably in the first half of 2017. This movement is partly offset by increased loans and deposit balances.

An increase in deposits and financial savings: 2017 saw another growth in bank deposits reaching €15.4bn, rising 6% with demand deposits in particular growing 9%.
Total client assets across the HSBC network in France rose from €38.1bn at end-2016 to €39.4bn at end-2017.

New mortgage lending significantly grew to €4.6bn. Total loans outstanding reached €18.3bn.

Increase in life insurance assets under management: In life insurance, assets held by the life insurance company on behalf of customers rose to €19.6bn (from €19.1bn in 2016). The unit-linked part grew by 18% and now represent 20.2% of outstandings versus 17.6% the previous year.

In the asset management business. Assets under management and distribution for retail, corporate and institutional clients amounted to €80bn as at end-2017, slightly decreasing year-on-year related mainly to short-term and fixed income products.

The expertise of the Asset Management business resulted in the following awards in 2017:

- *Grand trophée d'or Le* Revenu for HSBC Patrimoine and
- best Plan d'Epargne en Actions ('PEA') over 5 years (*Mieux Vivre Votre Argent* magazine);

Private Banking

Assets under management increased by 12% compared with 2016, to €8.0bn, driven by positive net inflows mainly from domestic customers and mainly arising from referrals from other business lines.

[4] See appendix

Corporate Centre

The Corporate Centre comprises treasury and Balance sheet management activities along with operating income and expense items that are not allocated to the global businesses.

In 2016, Balance sheet management benefited from revenue related to the partial discontinuation of macro hedging relationships (€122m).

The main unallocated items were,

- at the revenue level, the change in fair-valued own debt due not related to the credit spread, and recognition of the ineffective portion of hedging transactions under IAS 39, and
- at the expense level, restructuring costs and the cost of IT projects relating to strategic initiatives in the areas of digital banking and the modernisation of systems, which affected the 2015, 2016 and 2017 financial years.

Appendix

The accounts audit procedures have been completed and the audit report is being issued.

Summary consolidated income statement

(million of euros)	2nd half-year		Year	
	2017	2016	**2017**	2016
Net interest income	516	591	1,048	1,218
Net fee income	283	314	574	648
Net trading income	88	164	297	516
Other operating income	(14)	(52)	(12)	(65)
Net operating income before loan impairment and other credit risk provisions	**873**	1,017	**1,907**	2,317
Loan impairment charges and other credit risk provisions	(85)	(49)	(81)	(73)
Total operating expenses	(765)	(908)	(1,607)	(1,812)
Profit before tax	**23**	60	**219**	432
Tax expense	28	(30)	(43)	(120)
Profit/(loss) for the year	**51**	30	**176**	312
Profit/(loss) attributable to shareholders of the parent company	**51**	28	**177**	310
Profit attributable to non-controlling interests	–	2	(1)	2

Change in reportable segments

During the second half of 2016, in accordance with the HSBC Groups approach, HSBC France's management made the decision to realign certain functions to a Corporate Centre as of 1 January 2017. These include balance sheet management, legacy businesses and interests in associates and joint ventures. It also includes the results of our financing operations and central support costs with associated recoveries. Certain central costs previously reported in Other are now reallocated to the global businesses where appropriate. Residual costs are reported within the Corporate Centre.

PVIF

HSBC France, through its HSBC Assurances Vie subsidiary, accounts for its life insurance business using the embedded value method, which provides a comprehensive framework for assessing risk and valuation. PVIF (present value of in-force long-term insurance business) is the present value of future profits from existing insurance policies.
The PVIF calculation is based on assumptions that take into account business risks and uncertainties. When projecting cash flows, HSBC Assurances Vie makes a series of assumptions regarding future experience, taking into account local market conditions and management's judgment of future local trends.
Economic PVIF includes accounting PVIF, hedging instruments and technical provisions

Non-GAAP financial measures

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

Significant revenue items (gains)/losses *(millions of euros)*	Year **2017**	2016
Reported revenue	1,907	2,317
Significant revenue items	24	(67)
– change in credit spread on debt under fair value option	—	11
– debit valuation adjustment	28	3
– non-qualifying hedges	(4)	27
– gain on sale of shareholding of Visa Europe	—	(108)
Adjusted revenue	**1,931**	**2,250**

Significant cost items (recoveries)/charges *(millions of euros)*	Year **2017**	2016
Reported operating expenses	(1,607)	(1,812)
Significant cost items	90	298
– goodwill impairment	—	127
– costs to achieve	81	158
– costs associated with the UK's exit from the EU	9	—
– settlements and provisions in connection with legal and regulatory matters	—	13
Adjusted operating expenses	**(1,517)**	**(1,514)**

Adjusted results by business line

	Year 2017					
(millions of euros)	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
Net interest income	633	318	140	35	(78)	1,048
Net Fee Income	281	187	84	22	0	574
Trading Income	(37)	–	345	5	8	321
Other income	(116)	13	88	(13)	16	(12)
Net operating income before loan impairment charges	**761**	**518**	**657**	**49**	**(54)**	**1,931**
Loan impairment charges and other credit risk provisions	(11)	7	(76)	(1)	–	(81)
Total operating expenses	**(744)**	**(345)**	**(364)**	**(43)**	**(21)**	**(1,517)**
Adjusted profit before tax	**6**	**180**	**217**	**5**	**(75)**	**333**

	Year 2016					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
Net interest income	731	337	160	36	(46)	1,218
Net Fee Income	289	194	144	21	0	648
Trading Income	(19)	(1)	351	3	212	546
Other income	(177)	19	12	(15)	(1)	(162)
Net operating income before loan impairment charges	824	549	667	45	165	2,250
Loan impairment charges and other credit risk provisions	(15)	(59)	2	(1)	–	(73)
Total operating expenses	(741)	(344)	(374)	(36)	(19)	(1,514)
Adjusted profit before tax	68	146	295	8	146	663

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Note to editors:

HSBC in France
HSBC France, joined the HSBC Group in 2000 and is headquartered in Paris. Serving customers from around 310 offices across France and around 9,000 employees, HSBC France develops activities in Retail Banking and Wealth Management, Commercial Banking, Global Baking and Markets as well as Private Banking.

HSBC Holdings plc
HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 3,900 offices in 67 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,522bn at 31 December 2017, HSBC is one of the world’s largest banking and financial services organisations.

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