

19 February 2019

HSBC France – 2018 annual and second half results

At its 19 February 2019 meeting, HSBC France's Board of Directors reviewed the second half year results and approved the bank's consolidated financial statements for 2018.

HSBC France continues to deploy its strategy based on a universal banking model with the support of the HSBC Group. HSBC France's activity in 2018 increased within a favourable context of economic growth in France and abroad. Revenues, however, were impacted by severe market conditions, particularly at the end of the year, and the interest margin by persisting historically low interest rates.

In an evolving political and regulatory environment in Europe, several HSBC Bank plc European branches and subsidiaries have been, or will be, transferred to HSBC France by 1 March 2019. HSBC France will continue to build strong business relationships with the clients of these entities and strengthen its position as the first international bank in France in Global Banking and Markets and Commercial Banking activities.

2018 annual results

Reported consolidated profit before tax was €45m, down from €219m in 2017. Profit for the year was strongly impacted by low trading income in a context of high volatility, low interest rates and low liquidity in the euro interest rate markets. Profit before tax also reflected the persisting historically low interest rates that impacted the profitability of retail banking in France.

Reported net operating income before expected credit losses was €1,736m, down from €1,907m in 2017. Trading income was impacted by weak customer demand and lower margins in the eurozone sovereign debt markets. Global Banking and Markets revenue benefited from a strong performance in M&A and Credit & Lending activities, whereas Retail Banking revenue was impacted by persisting historically low interest rates in spite of robust levels of activity and growth in loan and deposit balances. The positive contribution to revenue of HSBC France's European entities was €81m.

Reported loan impairment charges were a net credit of €10m, compared with a charge of €81m in 2017 due to a loss on a receivable from a Global Banking counterparty totaling €82m, fully offset by a gain on a hedging derivative recognized in revenues. Excluding this item, which did not affect HSBC France's P&L, credit risk provisions slightly decreased, which reflected HSBC France's rigorous credit risk management in a favourable economic environment.

Reported operating expenses were €1,701m, up from €1,607m in 2017. These included HSBC France's European entities costs of €73m, costs related to the United Kingdom's proposal to leave the European Union of €48m and the contribution to the Single Resolution Fund of €58m (€42m in 2017; non-deductible). Excluding these elements, operating expenses decreased as a result of productivity gains allowing additional expenditure in IT and digital solutions.

Reported loss attributable to shareholders of the parent company was €-17m in 2018, compared with a profit of €177m in 2017.

HSBC France consolidated balance sheet total assets were €181bn at 31 December 2018, up from €168bn at 31 December 2017.

This press release is issued by
HSBC France

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At 31 December 2018, HSBC France reported a end point common equity tier 1 (CET1) ratio of 13.1% and a end point total capital ratio of 15.7%. The full leverage ratio was 3.6%. The liquidity coverage ratio (LCR) was 128% and the net stable funding ratio (NSFR) was 113%.

2018 second half results

The reported consolidated profit before tax was €35m, up from €23m in the second half of 2017.

Reported net operating income before expected credit losses was €833m, compared with €873m in the second half of 2017. Profit before tax in the second half of 2018 was impacted by the reduced trading activity reflecting difficult market conditions in the fourth quarter and by the bearish trend of stock markets at the end of the year that affected Retail Banking revenues. Commercial Banking and Retail Banking business lines are still impacted by historically low interest rates in spite of increasing activity volumes.

The loan impairment charges were a net credit of €25m in the second half of 2018, compared with a charge of €85m in 2017 due to a loss on a receivable from a Global Banking counterparty totalling €82m, fully offset by a gain on a hedging derivative recognized in revenues. Excluding this specific item, which did not affect HSBC France's P&L, credit risk provisions significantly decreased.

Reported operating expenses were €823m, compared with €765m in the second half of 2017, including HSBC France's European entities and the costs related to the United Kingdom's proposal to leave the European Union. Excluding these elements, the operating expenses were broadly in line with prior year.

Legal entity restructuring and post-closing events

In an evolving political and regulatory environment in Europe, HSBC is adjusting its activities to strengthen its pan-European value proposition. HSBC France has acquired or will acquire up to 1 March 2019 some of the assets and liabilities of nine European branches and subsidiaries from HSBC Bank plc (Greece, Poland, Ireland, Belgium, Netherlands, Luxembourg, Spain, Italy and the Czech Republic).

Altogether, these entities show a profit before tax of €126m in 2018 and total assets of €17.6bn. In this context, HSBC France completed two new capital increases at the beginning of 2019: €949.6m on 14 January 2019 and €336.3m on 1 February 2019. HSBC France also completed a €400m issuance of subordinated bonds accounted as tier 2 capital on 29 January 2019. These transactions will not impact the solvency ratios of HSBC France as they will be offset by increased RWAs and leverage exposure driven by transfers between HSBC Bank plc and HSBC France.

Adjusted results per business line

Commercial Banking

The adjusted profit before tax was €145m, down from €180m in 2017, due to persisting low interest rates in spite of increasing activity volumes and the positive contribution of HSBC France's European entities.

HSBC France is dedicated to enable businesses to thrive and, over 2018, its customer loan balance in France has increased by 11% to €12.6bn, mainly in the medium-sized and large corporate segments. The deposit balances were up by 3% to €11.2bn.

The revenue generated by HSBC France clients in the other entities of the HSBC Group increased by 15%. HSBC remains a key partner for French companies that intend to expand internationally as well as for foreign companies with development plans in France.

Global Banking and Markets

In 2018, HSBC France improved its market share in debt capital market and confirmed its position as the first international bank in the French market¹ and the leading European issuer². HSBC supported its clients with their key projects on international markets (high-yield bonds, hybrid bonds, multi tranches/multi currencies, private placements), for a full range of issuers in terms of publicity and credit scoring. HSBC won consequent mandates in 'green and sustainable' issuances and strengthened its position on that market, ranking 2nd globally³.

Global Banking and Markets adjusted profit before tax was €30m, compared to €217m in 2017, mainly due to the strong decrease in revenue in fixed income and a particularly disappointing fourth quarter, affected by severe market conditions.

The revenue generated by HSBC France clients in the other entities of the HSBC Group were up by 11% between 2017 and 2018 at a constant exchange rate.

Retail Banking and Wealth Management

The adjusted profit before tax was €-55m, down by €61m between 2017 and 2018, including the PVIF⁴ movement related to RBWM activities of €44m. The profit reflected the lasting low interest rates, unfavorable market conditions and significant expenditure in IT and digital solutions, partly offset by strong commercial activity. In 2018, commercial activity in the branches and in the Insurance and Asset Management businesses remains strong.

Customer loan balances in France were up by 3% to €19bn over 2018. The production of new mortgages remained strong at €3.3bn.

Deposit balances were up by 7% to €16.6bn over 2018 and total client assets under management was up by 2% to more than €40bn.

The assets held by the life insurance company on behalf of customers slightly increased to €19.7bn (from €19.6bn). The decrease in financial markets towards the end of the year had an impact on the unit-linked part (down to 19.1% of outstandings from 20.2% last year).

In 2018, the Insurance and Asset Management businesses were recognised for their expertise with a number of awards including the 'Trophée d'Or' of life insurance contracts (*Le Revenu*) for 'HSBC Stratégie Patrimoine' for the fourth year in a row, the 'Trophée d'Or' on Europe equity offering range (*Le Revenu*) and the 2nd rank in 'Corbeille Long-Terme' for full offering range performance over five years (*Mieux Vivre Votre Argent*).

Private Banking

The adjusted profit before tax was €13m in 2018, compared to €5m in 2017, reflecting strong customer demand.

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. The adjusted profit before tax was €-44m, compared to €-75m in 2017.

¹ source Dealogic

² source Dealogic

³ source Dealogic

⁴ Present Value of In-Force long term insurance business (see appendix)

Appendix

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

Summary consolidated income statement

	Half year to		Year		
	€m	31-Dec-2018	31-Dec-2017	2018	2017
Net interest income		511	516	1 011	1 048
Net fee income		307	283	593	574
Net income/(expense) from financial instruments held for trading or managed on a fair value basis ¹		(35)	104	24	291
Other operating income/(expense)		50	(30)	108	(6)
Net operating income before loan impairment and other credit risk provisions		833	873	1 736	1 907
Loan impairment charges and other credit risk provisions		25	(85)	10	(81)
Total operating expenses		(823)	(765)	(1 701)	(1 607)
Profit before tax		35	23	45	219
Tax expense		(73)	28	(63)	(43)
Profit/(loss) for the year		(38)	51	(18)	176
Profit/(loss) attributable to shareholders of the parent company		(37)	51	(17)	177
Profit attributable to non-controlling interests		(1)	—	(1)	(1)

¹ The presentation of the item "Net income/(expense) from financial instruments held for trading or managed on a fair value basis" has been reviewed. Comparative information has been modified accordingly.

Present Value of In-Force long term insurance business (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.

Alternative performance metrics

To measure our performance we also use non-GAAP financial measures, including those derived from our reported results that eliminate factors that distort year-on-year comparisons. The 'adjusted performance' measure removes the impact of 'significant items', listed below, and year-on-year foreign currency translation differences.

	€m	Year	
		2018	2017
Reported revenue		1 736	1 907
Significant revenue items		(5)	24
– Debit Valuation Adjustment		(6)	28
– Non-qualifying hedges		1	(4)
Adjusted revenue		1 731	1 931
Reported operating expenses		(1 701)	(1 607)
Significant cost items		49	90
– Service Company establishment costs		1	—
– Costs to achieve		—	81
– Costs associated with the UK's exit from the EU		48	9
Adjusted operating expenses		(1 652)	(1 517)

Adjusted results by business line

	Year 2018						
	€m	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
Net operating income before loan impairment charges		749	514	434	52	(18)	1 731
Loan impairment charges and other credit risk provisions		–	–	3	5	2	10
Total operating expenses		(804)	(369)	(407)	(44)	(28)	(1 652)
Adjusted profit before tax		(55)	145	30	13	(44)	89
	Year 2017						
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

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HSBC in France

HSBC France is a subsidiary of the HSBC Group. The head office of HSBC France is located in Paris. With around 290 points of sale in France and nearly 8,000 employees, HSBC in France develops universal banking activities with private and corporate customers.

HSBC Holdings plc

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide across 66 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,558bn at 31 December 2018, HSBC is one of the world's largest banking and financial services organisations.