

18 February 2020

HSBC FRANCE 2019 ANNUAL AND SECOND HALF RESULTS

At its 18 February 2020 meeting, HSBC France's Board of Directors reviewed the second half year results and approved the bank's consolidated financial statements for 2019.

HSBC Group's strategy in Continental Europe is to be the leading international bank. We want to help our clients grow their businesses in the European single market and support them as they engage in international markets. France has a key role in helping HSBC achieve its priority of becoming the leading international bank in Europe. HSBC France's activity in 2019 was achieved in a difficult environment with a deceleration of the global economy and persisting historically low interest rates in Europe.

In 2018 and 2019, HSBC France continued to expand its product offering, including Euroclearing, and acquired the activities of the HSBC Bank plc's European branches. HSBC France also opened a new branch in Stockholm to serve clients from Denmark, Finland, Norway and Sweden. With coverage capacities in Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain, Sweden and the United Kingdom in addition to its banking activities in France, HSBC France was able to ensure continuity of service to HSBC clients as the United Kingdom was preparing to withdraw from the European Union. To fund these changes, HSBC France completed several capital increases in 2019 for a total amount of €1,787m. The total expenses related to the preparation of Brexit amounted to €95m for HSBC France in 2018 and 2019.

2019 annual results

Reported consolidated loss before tax was €22m, down from a profit of €45m in 2018, including a €169m goodwill impairment in Commercial Banking partly offset by a favourable PVIF¹ movement. The financial performance was subdued by the persisting historically low interest rates that impacted the net interest margins of Retail Banking and Wealth Management and Commercial Banking, partly mitigated by growth in the loan and deposit balances. Furthermore, Global Markets performance was low in a competitive environment. These elements were partly offset by the positive contribution from the European branches that generated a reported profit before tax of €131m.

Reported net operating income before change in expected credit losses and other credit impairment charges was €2,227m, up from €1,736m in 2018. The increase was mostly related to the European branches, a favourable PVIF movement, a strong performance for Global Banking and resilient revenues in Retail Banking and Wealth Management particularly in Life Insurance activities, Private Banking and Commercial Banking. The increase was partly offset by still low revenues in Rates products for Global Markets, due to a weak customer demand and lower margins in the Eurozone sovereign debt markets. The positive contribution to revenues of HSBC France's European branches in 2019 was €418m.

Reported change in expected credit losses and other credit impairment charges was a charge of €128m, compared with net credit of €10m in 2018. However, the cost of risk², at 23bps, remained low.

¹ Present Value of In-Force long term insurance business (see appendix)

² Annualised expected credit losses on stage 3 and purchased or originated credit-impaired assets to total end-of-period outstanding loan portfolio

Reported operating expenses were €2,121m, up from €1,701m in 2018. These included the costs of the HSBC France's European branches (€277m), a goodwill impairment in Commercial Banking (€169m) and the costs related to the preparation of Brexit (€47m, stable compared to €48m in 2018).

Reported loss attributable to shareholders of the parent company was €39m in 2019, compared with a loss of €17m in 2018.

The consolidated balance sheet of HSBC France showed total assets of €238bn at 31 December 2019, up from €181bn at 31 December 2018. The increase was mainly due to the integration of the HSBC France's European branches and higher balances in Global Markets accounts, notably reverse repos and derivative instruments.

At 31 December 2019, HSBC France reported a Liquidity Coverage Ratio (LCR)³ of 152% and a Net Stable Funding Ratio (NSFR)⁴ of 117%. The Bank's Common Equity Tier 1 (CET1) ratio was 13.5% and the Total Capital ratio was 16.9%. The Leverage Ratio was 3.7%.

2019 second half results

The reported consolidated loss before tax was €73m, down from a profit of €35m in the second half of 2018.

Reported net operating income before change in expected credit losses and other credit impairment charges was €1,096m, compared with €833m in the second half of 2018. The increase was mainly related to the contribution to revenues from the HSBC France's European branches, a favourable PVIF movement and resilient income in Retail Banking and Wealth Management, Private Banking and Commercial Banking in spite of persisting historically low interest rates. The performance of the Global Banking and Markets activities remained stable.

Reported change in expected credit losses and other credit impairment charges was a charge of €74m, compared with a net credit of €25m in the second half of 2018.

Reported operating expenses were €1,095m, compared with €823m in the second half of 2018. The increase was driven by a goodwill impairment in Commercial Banking and the costs of the HSBC France's European branches. Excluding these elements, the operating expenses were slightly lower than prior year.

During the second half of 2019, HSBC started a business review. As part of the update of the operating model in Europe, Retail banking operations in France are subject to a strategic review. This review is ongoing and will take some time to conclude. HSBC France remains focused on its clients and will continue to work with them during this period.

³ Computed in respect of the EU Delegated act

⁴ Computed in respect of BCBS 295 guidelines

Adjusted results per business line

Commercial Banking

The adjusted profit before tax was €184m, up from €145m in 2018, driven by the positive contribution of HSBC France's European branches and higher customer loan and deposit balances.

Over 2019, customer loan balances increased by 40% to €18.4bn (or 5% excluding the HSBC France's European branches). The deposit balances were up by 93% to €22.7bn (or 6% excluding the HSBC France's European branches). At the same time, Commercial Banking achieved strong business levels in structuring and advisory services in connection with Global Banking and Markets.

HSBC France leveraged on the HSBC Group's international network and expertise to help French companies to set up across Europe or all over the world, as well as foreign companies to expand in France. Thus, the revenues generated by French customers in other international HSBC Group entities represented a third of the revenues generated by the same companies in France and grew by 11% in 2019.

Global Banking and Markets

In 2019, HSBC improved its market share in debt capital markets and confirmed its position as the first international bank for French issuers and a leading bank in Europe for Sovereign, Supranational and Agency issuers⁵. HSBC supported its clients with their key projects on many international markets (high-yield bonds, hybrid bonds, multi tranches/multi currencies, private placements). Moreover, HSBC strengthened its position in green and sustainable bond origination, ranking as the 1st top underwriter globally⁶.

Global Banking and Markets adjusted profit before tax was €24m, down from €30m in 2018, due to a persistently weak performance in Rates within Global Markets and an unfavourable change in expected credit losses and other credit impairment charges. These elements were partly offset by revenue growth in Global Banking, Global Liquidity and Cash Management (GLCM) and Global Trade and Receivables Finance (GTRF) as a result of a broader scope of clients to serve (based in all Europe) and products to propose (for example, Euroclearing business, new HSS platform).

The revenue generated by HSBC France's clients in the other entities of the HSBC Group were up by 3% between 2018 and 2019 at a constant exchange rate.

Retail Banking and Wealth Management

The adjusted profit before tax was €38m, up from a loss of €55m in 2018, mostly thanks to a favourable PVIF movement of €110m (compared to €44m in 2018) and controlled cost management. Whilst customer balances grew with the support of investments in marketing and digital capabilities, persisting low interest rates continue to put pressure on revenue and profitability.

The cost of risk was nil, reflecting HSBC France's rigorous credit risk management and a favourable credit environment.

Customer loan balances in France were up by 8% to €21.0bn over 2019. Deposit balances were up by 8% to €18.5bn over 2019 and total client assets under management were up by 7% to €43.0bn, in spite of a very competitive market.

The assets held by the life insurance company on behalf of customers increased to €20.9bn (from €19.7bn in 2018). The positive performance of global stock markets over the year had a favourable

⁵ Source : Dealogic – European SSA bonds

⁶ Source : Dealogic - Global green, social and sustainable bonds

impact on the unit-linked business (up to 22.2% of the assets from 19.1% last year). The net new money related to unit-linked business was up by 5% in a slightly decreasing market⁷.

The quality of the HSBC France's retail network was recognised by the French awards '*Trophées 2020 de la Qualité Bancaire*'⁸ that evaluated client satisfaction. HSBC France ranked 1st in the "experience in branch" and "online banking" categories, 2nd in the "relationship manager" and "expert relationship manager" categories and 3rd in the "Internet website" category.

In 2019, our Insurance and Asset Management businesses were recognised for their expertise with a number of awards including the '*Trophée d'Or*'⁹ of life insurance contracts for '*HSBC Stratégie Patrimoine*' for the fifth year in a row and runner-up at the '*Globes de la Gestion*'¹⁰ of French funds in the 'SRI Fixed Income' category.

Private Banking

The adjusted profit before tax was €12m in 2019, compared to €13m in 2018, due to higher costs in IT and regulatory requirements. Revenues were up by 14%, or 9% excluding a favourable PVIF movement.

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 loss before tax was €18m, compared to a loss of €44m in 2018.

⁷ Source : *Fédération Française de l'Assurance* – French Insurance Federation

⁸ Given by French website *Meilleurebanque.com* specialised in bank comparison

⁹ Given by French magazine *Le Revenu*

¹⁰ Given by French magazine *Gestion de Fortune*

Appendix

The accounts audit procedures are ongoing.

Summary consolidated income statement

	Half year to		Year		
	€m	31-Dec-2019	31-Dec-2018	2019	2018
Net interest income		550	511	1,095	1,011
Net fee income		384	307	778	593
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		17	(35)	30	24
Other operating income/(expense)		145	50	324	108
Net operating income before loan impairment and other credit risk provisions		1,096	833	2,227	1,736
Loan impairment charges and other credit risk provisions		(74)	25	(128)	10
Total operating expenses		(1,095)	(823)	(2,121)	(1,701)
Profit before tax		(73)	35	(22)	45
Tax expense		(18)	(73)	(17)	(63)
Profit/(loss) for the year		(91)	(38)	(39)	(18)
Profit/(loss) attributable to shareholders of the parent company		(91)	(37)	(39)	(17)
Profit attributable to non-controlling interests		—	(1)	—	(1)

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.

In 2019, the PVIF calculation took into account changes in assumptions and model evolutions mainly due to the new tripartite fee agreement which was signed on commissions between HSBC Global Asset Management (France), HSBC France and HSBC Assurance Vie (France) related to unit-linked contracts and the review of the loss absorbency mechanism on Euro Fund agreed by HSBC France and HSBC Assurance Vie (France).

In 2019, the PVIF movement was €113m, of which €110m related to Retail Banking and Wealth Management.

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	
		2019	2018
Reported revenue		2,227	1,736
Significant revenue items		2	(5)
– Debit Valuation Adjustment		1	(6)
– Fair value movement on non-qualifying hedges		1	1
Adjusted revenue		2,229	1,731
Reported operating expenses		(2,121)	(1,701)
Significant cost items		260	49
– Service Company establishment costs		—	1
– Restructuring costs and other costs		44	—
– Costs associated with the UK's exit from the EU		47	48
– Goodwill impairment		169	—
Adjusted operating expenses		(1,861)	(1,652)

Adjusted results by business line

€m	Year 2019					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
Net operating income before expected credit loss and other credit risk provisions	819	676	623	60	51	2,229
Change in expected credit loss and other credit risk provisions	1	(69)	(59)	—	(1)	(128)
Total operating expenses	(782)	(423)	(540)	(48)	(68)	(1,861)
Adjusted profit before tax	38	184	24	12	(18)	240
	Year 2018					
Net operating income before expected credit loss and other credit risk provisions	749	514	434	52	(18)	1,731
Change in expected credit loss 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

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Group HSBC France

HSBC France is a subsidiary of the HSBC Group. The head office of HSBC France is located in Paris. HSBC France includes, in addition to its banking activities in France, the activities of 11 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain, Sweden and United Kingdom). HSBC France has a strategy aligned to the HSBC Group, which seeks to provide clients with high value-added products and services as they look to operate within France, Continental Europe and beyond.

HSBC Holdings plc

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide across 64 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,715bn at 31 December 2019, HSBC is one of the world's largest banking and financial services organisations.