Press Release

5 August 2019

HSBC FRANCE
INTERIM RESULTS 2019

Interim results 2019

On 2 August 2019, HSBC France's Board of Directors approved the bank's consolidated financial statements for the first half of 2019.

HSBC France continues to deploy its strategy based on a universal banking model, with the support of the HSBC Group. France has a key role in helping HSBC achieve its priority of becoming the leading international bank in Europe.

Several European branches and subsidiaries of HSBC Bank plc (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland and Spain) were transferred to HSBC France during 2018 and the first half of 2019. HSBC France continues to build strong business relationships with the clients of these entities and strengthens its position as the leading international bank in France in Global Banking and Markets and Commercial Banking activities.

HSBC France's performance in the first half of 2019 was achieved during a difficult environment with a deceleration of the global economy and historically low interest rates in Europe – which could worsen in coming months.

Reported consolidated profit before tax was €51m, increasing from the €10m profit recorded in the first half of 2018, mostly driven by the contribution from the European branches. First half performance was impacted by continued low revenues in Global Markets, whilst low interest rates dampened the profitability of Retail Banking & Wealth Management and Commercial Banking.

Reported net operating income before change in expected credit losses and other credit impairment charges was €1,131m – up from €903m in the first half of 2018. The increase was mostly related to the transfer of the European branches (€194m), the growth in revenues of Global Banking, a favourable PVIF[1] movement and resilient revenues in Retail Banking and Wealth Management and Commercial Banking in spite of persisting low interest rates. However, the increase was partly offset by a reduction in revenues in the Euro rates business. HSBC maintained its strong position, ranking second in Europe for bond arrangements for Sovereign, Supranational, Agency issuers[2].

Reported change in expected credit losses and other credit impairment charges were €54m versus €15m in the first half of 2018. The cost of risk[3], at 19bps, remained low.

Reported operating expenses totalled €1,026m in the first half of 2019, compared with €878m for the same period in 2018. The increase was driven by the inclusion of the cost base of the European branches for €121m, the €7m increase in contributions to the Single Resolution Fund, the ongoing costs associated with the United Kingdom's withdrawal from the European Union and the accounting of annual taxes and contributions in the first half of the year[4]. Moreover, HSBC France continues its programme of investment in IT infrastructure, digital banking and the fight against financial crime.

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[1] Present Value of In-Force long term insurance business (see appendix)
[2] Source : Dealogic – European SSA bonds – 1st half 2019
[3] Annualised expected credit losses on stage 3 and purchased or originated credit-impaired assets to total end-of-period outstanding loan portfolio
[4] According to the guidance provided by IFRIC 21

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Reported profit attributable to shareholders of the parent company was €52m for the half year to 30 June 2019, compared with €20m in the first half of 2018.

The consolidated balance sheet of HSBC France showed total assets of €236bn at 30 June 2019, versus €181bn at 31 December 2018. The increase was mainly due to the integration of the European branches and higher balances in trading, derivatives and client-clearing accounts for Global Markets activities.

At 30 June 2019, HSBC France reported a Liquidity Coverage Ratio (LCR)[5] of 123% and a Net Stable Funding Ratio (NSFR)[6] of 111%. The Bank's fully loaded Common Equity Tier 1 (CET1) ratio was 13.4% and the fully loaded Total Capital ratio was 16.6%. The fully loaded Leverage Ratio was 3.7%.

[5] Computed in respect of the EU Delegated act
[6] Computed in respect of BCBS 295 guidelines

Appendix

Interim accounts were subject to a limited review by the statutory auditors.

Summary consolidated income statement

	Half year to		
€m	**30 June 2019**	30 June 2018	31 Dec 2018
Net interest income	**545**	500	511
Net fee income	**394**	286	307
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	**13**	59	(35)
Other operating income/(expense)	**179**	58	50
Net operating income before change in expected credit losses and other credit impairment charges	**1,131**	**903**	**833**
Change in expected credit losses and other credit impairment charges	**(54)**	(15)	25
Total operating expenses	**(1,026)**	(878)	(823)
Profit before tax	**51**	**10**	**35**
Tax expense	**1**	10	(73)
Profit/(loss) for the year	**52**	**20**	**(38)**
Profit/(loss) attributable to shareholders of the parent company	**52**	**20**	**(37)**
Profit attributable to non-controlling interests	**—**	—	(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 the future profits from the insurance policies, taking into account local market conditions (economic and non economic) and management actions.

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.

	Half year to		
€m	**30-June-2019**	30-June-2018	31-Dec.-2018
Reported revenue	**1,131**	903	833
Significant revenue items	**3**	(3)	(2)
– Debit Valuation Adjustment	**2**	(3)	(3)
– Non-qualifying hedges	**1**	—	1
Adjusted revenue	**1,134**	900	831

Reported operating expenses	**(1,026)**	(878)	(823)
Significant cost items	**41**	24	25
– Restructuring costs	**14**	—	—
– Costs associated with the UK's exit from the EU	**27**	24	24
– Service Company establishment costs	**—**	—	1
Adjusted operating expenses	**(985)**	(854)	(798)

Adjusted results by business line

€m	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
	Half year to 30 June 2019					
Net operating income before change in expected credit losses and other credit impairment charges	**415**	**333**	**324**	**28**	**34**	**1,134**
Change in expected credit losses and other credit impairment charges	4	1	(59)	—	—	(54)
Total operating expenses	**(415)**	**(210)**	**(297)**	**(24)**	**(39)**	**(985)**
Adjusted profit before tax	**4**	**124**	**(32)**	**4**	**(5)**	**95**
	Half year to 30 June 2018					
Net operating income before change in expected credit losses and other credit impairment charges	**406**	**259**	**218**	**27**	**(10)**	**900**
Change in expected credit losses and other credit impairment charges	(3)	(12)	(3)	1	2	(15)
Total operating expenses	**(409)**	**(185)**	**(211)**	**(23)**	**(26)**	**(854)**
Adjusted profit before tax	**(6)**	**62**	**4**	**5**	**(34)**	**31**
	Half year to 31 December 2018					
Net operating income before change in expected credit losses and other credit impairment charges	**343**	**255**	**216**	**25**	**(8)**	**831**
Change in expected credit losses and other credit impairment charges	3	12	6	4	0	25
Total operating expenses	**(395)**	**(184)**	**(196)**	**(21)**	**(2)**	**(798)**
Adjusted profit before tax	**(49)**	**83**	**26**	**8**	**(10)**	**58**

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HSBC France Group
HSBC France is a subsidiary of the HSBC Group. The head office of HSBC France is located in Paris. Since 1 April 2019, HSBC France now includes, in addition to its universal banking activities in France, the activities of 9 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland and Spain). In France, HSBC's strategy is to develop a modernised universal banking model, differentiating itself on its unique international network, and leveraging its Markets positioning as the Euro platform for the HSBC Group.

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$2,751bn at 30 June 2019, HSBC is one of the world's largest banking and financial services organisations.