

23 February 2021

## **HSBC CONTINENTAL EUROPE 2020 ANNUAL AND SECOND HALF RESULTS**

At its 23 February 2021 meeting, HSBC Continental Europe's Board of Directors reviewed the second half year results and approved the bank's consolidated financial statements for 2020.

On 1 December 2020, HSBC France and all its European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, the Netherlands, Poland, Spain and Sweden) took the legal name 'HSBC Continental Europe' to reflect their business proposition to be an integrated Continental European bank connecting their customers to HSBC's global network, and providing access to Continental Europe to HSBC's customers around the world. HSBC chose Paris as the headquarters for its operations in Continental Europe.

HSBC Continental Europe's performance in 2020 was impacted by exceptional items, including the impairment of tangible and intangible assets and significant restructuring costs, and by the downturn of the global economy caused by the Covid-19 pandemic, which resulted in an increase in expected credit losses and other credit impairment charges. Historically low interest rates in Europe and the cut in US rates in March 2020 dampened the net interest margin, in spite of higher average loan and deposit balances over 2020.

Notwithstanding that context, customer revenue remained resilient, and HSBC Continental Europe continued to support its customers and the wider economy, including through the granting of new loans under the French Government guarantee scheme and HSBC specific schemes for a full-year amount of €6bn. HSBC also improved its market share in debt capital markets and confirmed its position as a leading bank in Europe, ranking 2<sup>nd</sup> in the 'European Sovereign Bonds' category<sup>1</sup>. Moreover, HSBC's expertise was underlined in 2020 as it took home the 'Western Europe Transaction Banking Award' from *The Banker*.

### **2020 annual results**

**Reported consolidated loss before tax** was €945m, down from a loss of €22m in 2019, including the impairment of tangible and intangible assets (€500m), significant restructuring costs (€258m), an unfavourable PVIF<sup>2</sup> movement (€123m), higher operating expenses<sup>3</sup> and an increased cost of risk (€289m).

**Reported net operating income before change in expected credit losses and other credit impairment charges** was €2,121m, down from €2,227m in 2019. The decrease was driven by an unfavourable PVIF movement in Life Insurance of €123m. In addition, Wealth and Personal Banking income was impacted by persistently low rates and a decrease in net fee income as a consequence of adverse market conditions and lower customer activity in the context of the Covid-19 epidemic. This was offset by growth in Markets and Securities Services, corporate lending to Global Banking clients and a resilient performance in Commercial Banking.

**Reported change in expected credit losses and other credit impairment charges** was a charge of €289m, compared with a charge of €128m in 2019. The increase in the cost of risk was a direct

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<sup>1</sup> Source: Dealogic

<sup>2</sup> Present value of in-force long-term insurance business (see appendix)

<sup>3</sup> Including higher contributions to the Single Resolution Fund and a perimeter effect related to the transfer to HSBC Continental Europe of the European branches during 2019 and of new activities in 2020

consequence of the effects of the Covid-19 epidemic and reflected the deterioration in the current economic environment and the forward outlook.

**Reported operating expenses** were €2,777m, up from €2,121m in 2019, including the impairment of tangible and intangible assets for €500m, restructuring costs for €258m, and contributions to the Single Resolution Fund which increased by €49m compared with prior year, partly offset by lower recurring expenses.

**Reported loss attributable to shareholders of the parent company** was €1,022m in 2020, compared with a loss of €39m in 2019.

**The consolidated balance sheet** of HSBC Continental Europe showed total assets of €237bn at 31 December 2020, compared to €238bn at 31 December 2019.

At 31 December 2020, HSBC Continental Europe reported a liquidity coverage ratio (LCR)<sup>4</sup> of 143% and a net stable funding ratio (NSFR)<sup>5</sup> of 136%. The bank's fully loaded common equity tier 1 (CET1) ratio was 12.6% and the fully loaded total capital ratio was 17.3%. The fully loaded leverage ratio was 4.2%. The solvency ratio of the Life Insurance company was 224%<sup>6</sup>.

### **2020 second half results**

**Reported consolidated loss before tax** was €295m, down from a loss of €73m in the second half of 2019.

**Reported net operating income before change in expected credit losses and other credit impairment charges** was €1,191m, compared with €1,096m in the second half of 2019. The increase was driven by a strong performance in Markets and Securities Services. The activity of the other business lines was resilient compared to prior year.

**Reported change in expected credit losses and other credit impairment charges** was a charge of €60m, compared with a charge of €74m in the second half of 2019. The improvement was predominantly in Global Banking and Markets.

**Reported operating expenses** were €1,426m, compared with €1,095m in the second half of 2019. The increase was driven by restructuring costs and the impairment of tangible assets, partly offset by cost management measures.

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<sup>4</sup> Computed in respect of the EU Delegated act

<sup>5</sup> Computed in respect of CRR II (Regulation EU 2019/876)

<sup>6</sup> Unaudited

## **2020 adjusted results<sup>7</sup> per business line**

### **Commercial Banking**

The adjusted profit before tax was €63m, down from €188m in 2019, driven by the increase in the cost of risk in the context of the Covid-19 epidemic.

At 31 December 2020, customer loan balances at €18.1bn included €2.2bn of new loans under the French Government guarantee scheme. Deposit balances were up by 14% to €27bn, with significant deposits inflows triggered by the impacts of the Covid-19 epidemic.

HSBC Continental Europe leveraged on the HSBC Group's international network and expertise to help its clients to set up all over the world, as well as foreign companies to expand in Continental Europe. Revenues generated by French customers in other international HSBC Group entities represented a third of the revenues generated by the same companies in France.

### **Global Banking and Markets**

The adjusted loss before tax was €73m, down from a profit of €28m in 2019, due to higher operating expenses, mostly related to increased contributions to the Single Resolution Fund and new activities transferred to HSBC Continental Europe. The increase in operating expenses was partly offset by an increase in revenue related to a recovery in 2020 of Markets and Securities Services activities (particularly Securities Financing and Debt Trading and Financing) and increased activity in corporate lending and the Euroclearing business, benefiting from a broader scope of clients based in Europe. Due to the Covid-19 pandemic, revenue from Real Asset and Structured Finance were lower than prior year.

Revenue generated in France by clients from other entities in the HSBC Group continued to increase in 2020, confirming the value of HSBC Continental Europe's strategy in the region.

### **Wealth and Personal Banking**

The adjusted loss before tax was €280m, down from a profit of €53m in 2019, mostly due to an unfavourable PVIF movement of €123m (compared to a favourable movement of €113m in 2019) and the impairment of tangible assets. Persistent low interest rates continued to put pressure on revenue and profitability, while Asset Management recorded an average performance reflecting the adverse market conditions.

The cost of risk was €22m in 2020, compared to nil in 2019, reflecting the impacts of the Covid-19 epidemic on the forward economic outlook.

Customer loan balances were up by 2% to €24.2bn over 2020, driven by €3.9bn new home loans in spite of the restrictions on customer activity due to the Covid-19 pandemic. Client assets under management were stable at €53bn, with deposit balances up by 6% to €21bn offset by lower wealth assets under management.

The life insurance liabilities managed by the insurance company slightly decreased to €23.2bn (from €23.3bn in 2019), with a growth in the unit-linked contracts by €0.5bn to €5.1bn. The share of the unit-linked business in the gross written premiums was 39% in 2020, compared to 34% for the market<sup>8</sup> and 25% last year.

The strategic review of our retail operations in France is ongoing and no decision has been made.

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<sup>7</sup> The adjusted results are alternative performance metrics where the impacts of 'significant items' and year-on-year foreign currency translation differences are removed (see appendix)

<sup>8</sup> Source : *Fédération Française de l'Assurance* – French Insurance Federation

## **Corporate Centre**

The Corporate Centre comprises operating income and expense items that are not allocated to the global businesses. The adjusted loss before tax was €41m, compared to a loss of €29m in 2019.

## Appendix

The accounts audit procedures are ongoing.

### Summary consolidated income statement

	Half year to		Year		
	€m	31-Dec-2020	31-Dec-2019	2020	2019
Net interest income		519	550	1,053	1,095
Net fee income		421	384	858	778
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		10	17	72	30
Other operating income/(expense)		241	145	138	324
<b>Net operating income before loan impairment and other credit risk provisions</b>		<b>1,191</b>	<b>1,096</b>	<b>2,121</b>	<b>2,227</b>
Change in expected credit losses and other credit impairment charges		(60)	(74)	(289)	(128)
Total operating expenses		(1,426)	(1,095)	(2,777)	(2,121)
<b>Profit before tax</b>		<b>(295)</b>	<b>(73)</b>	<b>(945)</b>	<b>(22)</b>
Tax expense		(230)	(18)	(80)	(17)
<b>Profit/(loss) for the year</b>		<b>(525)</b>	<b>(91)</b>	<b>(1,025)</b>	<b>(39)</b>
<b>Profit/(loss) attributable to shareholders of the parent company</b>		<b>(523)</b>	<b>(91)</b>	<b>(1,022)</b>	<b>(39)</b>
Profit/(loss) attributable to non-controlling interests		(2)	—	(3)	—

### Present value of in-force long-term insurance business (PVIF)

HSBC Continental Europe, 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 2020, the PVIF movement was unfavourable by €123m.

## 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 2020		€m	Year 2019
<b>Reported revenue</b>		<b>2,121</b>	Reported revenue		2,227
Significant revenue items		<b>(68)</b>	Significant revenue items		2
<b>Adjusted revenue</b>		<b>2,053</b>	<b>Adjusted revenue</b>		<b>2,229</b>
<b>Reported operating expenses</b>		<b>(2,777)</b>	Reported operating expenses		(2,121)
<b>Significant cost items</b>		<b>682</b>	Significant cost items		260
– Impairment of goodwill, intangibles and tangibles		<b>372</b>	– Goodwill impairment		169
– Restructuring cost and other significant items		<b>310</b>	– Costs associated with the UK's exit from the EU		47
			– Restructuring cost and other provisions		44
<b>Adjusted operating expenses</b>		<b>(2,095)</b>	<b>Adjusted operating expenses</b>		<b>(1,861)</b>

## Adjusted results by business line

HSBC Continental Europe changed its segmental reporting in 2020. As a consequence of the global business reorganisation outlined by HSBC Holdings plc in its business update on 18 February 2020, a new business line, Wealth and Personal Banking, was created by combining Retail Banking and Wealth Management and Global Private Banking. In addition, HSBC Continental Europe also made realignments within its internal reporting, reallocating some items from Corporate Centre to the business lines. Data below for year 2019 were restated accordingly. This restatement had no impact and did not change the consolidated financial results.

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Year 2020				
€m					
<b>Net operating income before expected credit loss and other credit risk provisions</b>	<b>622</b>	<b>700</b>	<b>695</b>	<b>36</b>	<b>2,053</b>
Change in expected credit losses and other credit impairment charges	(22)	(190)	(77)	—	<b>(289)</b>
<b>Total operating expenses</b>	<b>(880)</b>	<b>(447)</b>	<b>(691)</b>	<b>(77)</b>	<b>(2,095)</b>
<b>Adjusted profit/(loss) before tax</b>	<b>(280)</b>	<b>63</b>	<b>(73)</b>	<b>(41)</b>	<b>(331)</b>
	Year 2019				
<b>Net operating income before expected credit loss and other credit risk provisions</b>	885	689	640	15	2,229
Change in expected credit losses and other credit impairment charges	—	(69)	(59)	—	(128)
<b>Total operating expenses</b>	<b>(832)</b>	<b>(432)</b>	<b>(553)</b>	<b>(44)</b>	<b>(1,861)</b>
<b>Adjusted profit/(loss) before tax</b>	<b>53</b>	<b>188</b>	<b>28</b>	<b>(29)</b>	<b>240</b>

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### **HSBC Continental Europe**

Headquartered in Paris, HSBC Continental Europe is a subsidiary of HSBC Holdings plc. HSBC Continental Europe includes, in addition to its banking activities in France, the activities of 10 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden). HSBC Continental Europe's mission is to serve customers in continental Europe for their needs worldwide and customers in other Group countries for their needs in continental Europe.

### **HSBC Holdings plc**

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US\$2,984bn at 31 December 2020, HSBC is one of the world's largest banking and financial services organisations.