

2 August 2021

HSBC CONTINENTAL EUROPE INTERIM RESULTS 2021

On 30 July 2021, HSBC Continental Europe's Board of Directors approved the bank's consolidated financial statements for the first half of 2021.

HSBC Continental Europe's performance in the first half of 2021 was achieved in an improving economic environment, even though uncertainties related to the Covid-19 pandemic remain. While historically low and even negative interest rates continued to weigh on net interest margins, total customer revenue improved reflecting a good overall performance by the businesses.

This performance has further strengthened HSBC Continental Europe's position as it implements its strategy of being the leading international wholesale bank in Europe, complemented by a targeted wealth offering.

Reported consolidated profit before tax was €187m, up from a loss of €650m in the first half of 2020 that included the impairment and write-off of intangible assets for €284m. The increase was driven by a favourable PVIF (Present Value of In Force long-term insurance business¹) movement, decreased charge for expected credit losses and higher revenues in Global Banking and Markets.

Reported net operating income before change in expected credit losses and other credit impairment charges was €1,296m, up from €930m in the first half of 2020. The increase was driven by a favourable PVIF movement (€171m in the first half of 2021, compared with an unfavourable movement of €124m in the first half of 2020) as well as positive market impacts and good client activity in Global Banking and Markets, as progress has been made on repositioning the business. Commercial Banking and Wealth and Personal Banking delivered a resilient performance with stable customer revenues.

Reported change in expected credit losses and other credit impairment charges was a release of €1m, compared with a charge of €229m in the first half of 2020. The decrease in the charge for expected credit losses reflected the improvement in the current economic environment and outlook.

Reported operating expenses were €1,111m, down from €1,351m in the first half of 2020 that included the impairment and write-off of intangible assets for €284m. Lower depreciation and amortisation, the early impacts of the restructuring of Global Banking and Markets and lower discretionary costs were partly offset by an increase of €38m in the contributions to the Single Resolution Fund compared with prior year.

Reported profit attributable to shareholders of the parent company was €153m for the half year to 30 June 2021, compared with a loss of €499m in the first half of 2020.

The consolidated balance sheet of HSBC Continental Europe showed total assets of €231bn at 30 June 2021, compared to €237bn at 31 December 2020.

¹ See appendix

At 30 June 2021, HSBC Continental Europe reported a liquidity coverage ratio (LCR)² of 144% and a net stable funding ratio (NSFR)³ of 137%. The bank's fully loaded common equity tier 1 (CET1) ratio was 11.9% and the fully loaded total capital ratio was 16.4%. The fully loaded leverage ratio was 4.3%.

Potential sale of the retail banking business in France

On 18 June 2021, HSBC Continental Europe announced the signing of a Memorandum of Understanding with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA and My Money Bank, regarding the potential sale of HSBC Continental Europe's retail banking business in France. The sale would generate an estimated pre-tax loss including related transactions costs for HSBC Continental Europe of €1.9bn. The vast majority of the estimated loss is expected to be recognised upon the classification of the business as held for sale for accounting purposes, currently anticipated to be in 2022.

² Computed in respect of the EU Delegated act

³ Computed in respect of CRR II (Regulation EU 2019/876)

Appendix

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

Summary consolidated income statement

	€m	Half year to	
		30 June 2021	30 June 2020
Net interest income	480	534	519
Net fee income	457	437	421
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	90	62	10
Other operating income/(expense)	269	(103)	241
Net operating income before change in expected credit losses and other credit impairment charges	1,296	930	1,191
Change in expected credit losses and other credit impairment charges	1	(229)	(60)
Total operating expenses	(1,111)	(1,351)	(1,426)
Share of profit in associates and joint ventures	1	—	—
Profit/(loss) before tax	187	(650)	(295)
Tax expense	(34)	150	(230)
Profit/(loss) for the period	153	(500)	(525)
Profit/(loss) attributable to shareholders of the parent company	153	(499)	(523)
Profit/(loss) attributable to non-controlling interests	—	(1)	(2)

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

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 the first half of 2021, the PVIF movement was favourable by €171m.

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	Half year to		
		30 June 2021	30 June 2020	31 Dec 2020
Reported revenue		1,296	930	1,191
Significant revenue items		26	(9)	(59)
Adjusted revenue		1,322	921	1,132
Reported operating expenses		(1,111)	(1,351)	(1,426)
Significant cost items		30	297	385
– Impairment of goodwill, intangibles and tangibles		(1)	284	88
– Restructuring cost and other significant items		31	13	297
Adjusted operating expenses		(1,081)	(1,054)	(1,041)

Adjusted results by business line

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half year to 30 June 2021				
<i>€m</i>					
Net operating income before change in expected credit losses and other credit impairment charges	544	363	411	4	1,322
Change in expected credit losses and other credit impairment charges	10	(33)	24	—	1
Total operating expenses	(397)	(254)	(398)	(32)	(1,081)
Share of profit in associates and joint ventures	—	—	—	1	1
Adjusted profit/(loss) before tax	157	76	37	(27)	243
	Half year to 30 June 2020				
Net operating income before change in expected credit losses and other credit impairment charges	217	356	329	19	921
Change in expected credit losses and other credit impairment charges	(21)	(101)	(107)	—	(229)
Total operating expenses	(421)	(229)	(380)	(24)	(1,054)
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit/(loss) before tax	(225)	26	(158)	(5)	(362)
	Half year to 31 December 2020				
Net operating income before change in expected credit losses and other credit impairment charges	405	344	366	17	1,132
Change in expected credit losses and other credit impairment charges	(1)	(89)	30	—	(60)
Total operating expenses	(459)	(218)	(311)	(53)	(1,041)
Share of profit in associates and joint ventures	—	—	—	—	—
Adjusted profit/(loss) before tax	(55)	37	85	(36)	31

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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\$2,976bn at 30 June 2021, HSBC is one of the world's largest banking and financial services organisations.