

21 February 2023

HSBC CONTINENTAL EUROPE¹ 2022 ANNUAL AND SECOND HALF RESULTS

On 20 February 2023, HSBC Continental Europe's Board of Directors reviewed the second half year results and approved the bank's consolidated financial statements for 2022.

HSBC Continental Europe's performance in 2022 reflected continued growth in wholesale banking revenues driven by increased client activity and rising interest rates, despite the high level of inflation and the consequences of the ongoing Russia-Ukraine war on market conditions. We have progressed with the planned sale of our retail banking operations in France and our branch operations in Greece, which led to a reported loss for the year ending 2022.

Our ambition is to become the leading international wholesale bank in Continental Europe, with an integrated pan-European platform anchored in Paris. In support of this strategy, we finalised the acquisition of HSBC Germany and HSBC Malta² in November 2022. The bank now operates in 13 countries in Continental Europe.

2022 annual results

Reported loss for the period was €962m in 2022, compared with a profit of €268m in 2021, driven by the losses and impairments recognised in relation to the planned sale of retail banking operations in France (€1,998m before tax) and branch operations in Greece (€111m before tax).

Reported net operating income before change in expected credit losses and other credit impairment charges³ was €2,187m, up from €1,864m in 2021. The increase was driven by growth in Commercial Banking revenues particularly in Global Payment Solutions⁴. Markets and Securities Services also reported increased revenues driven by growth in Global Debt Markets, Foreign Exchange, Securities Financing and Securities Services. Global Banking revenues grew slightly as the impacts of the rising interest rates on Global Payment Solutions were partly offset by lower revenues in Lending and Capital Markets activities. Wealth and Personal Banking revenues were stable, with the impact of rising interest rates and the acquisition of HSBC Malta offset by less favourable market conditions on Asset Management and Life Insurance activities compared to the prior year.

Reported change in expected credit losses and other credit impairment charges³ was a charge of €127m, compared with a charge of €41m in 2021. The increase in the cost of risk reflected specific provisions and the deterioration of forward-looking economic conditions.

Reported operating expenses³ of €1,746m included €258m of exceptional cost items related to business transformation, and were up from €1,649m in 2021. Excluding these exceptional items,

¹ HSBC Continental Europe includes, in addition to its banking, insurance and asset management activities in France, the activities of 10 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden) and two subsidiaries (Germany and Malta) acquired in November 2022

² HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c

³ In respect of continuing operations in accordance with IFRS 5 (see appendix)

⁴ Formerly known as Global Liquidity and Cash Management

operating expenses reduced due to the benefits of business transformation, including the impact of the restructuring plans executed in 2021.

Reported profit before tax³ was €314m compared to €175m in 2021.

The consolidated balance sheet of HSBC Continental Europe showed total assets of €280bn at 31 December 2022, compared to €223bn at 31 December 2021. The increase was mainly due to the acquisition of HSBC Germany and HSBC Malta.

At 31 December 2022, HSBC Continental Europe reported an average liquidity coverage ratio (LCR)⁵ of 150% and an average net stable funding ratio (NSFR)⁶ of 135%. The bank's fully loaded common equity tier 1 (CET1) ratio was 15.3% and the fully loaded total capital ratio was 20.1%. The fully loaded leverage ratio was 4.3%. The solvency ratio of the Life Insurance company was 232%⁷.

2022 second half results

In respect of continuing and discontinued operations⁸.

Reported loss before tax was €1,720m, which included losses and impairments recognised in relation to the planned sale of retail banking operations in France (€1,998m). This compared to a reported consolidated profit before tax of €98m in the second half of 2021.

Reported net operating income before change in expected credit losses and other credit impairment charges was €(493)m and included exceptional losses related to the planned sale of retail banking operations in France. This compared to revenues of €1,067m in the second half of 2021.

Reported change in expected credit losses and other credit impairment charges was a charge of €123m, compared with a charge of €34m in the second half of 2021. The increase in the cost of risk was mainly in Commercial Banking and in Global Banking.

Reported operating expenses were €1,104m, compared with €935m in the second half of 2021, and included exceptional costs items related to the business transformation and restructuring plans.

⁵ Computed in respect of the EU Delegated act

⁶ Computed in respect of CRR II (Regulation EU 2019/876)

⁷ Unaudited

⁸ See appendix

Business disposals and changes of control

Our business transformation continues to progress at pace.

The sale of the retail banking operations in France is currently expected to close in the second half of 2023, and remains subject to regulatory approvals and the satisfaction of other conditions, including agreement and implementation of financing structures and the completion of operational transfers. At 31 December 2022, €23.6bn in total assets, including €23.4bn of loans and advances to customers and banks, and €25.7bn in total liabilities, including €20.9bn of customer accounts, were reclassified as held for sale in accordance with IFRS 5 and losses and impairments of €1,998m were recognised in 2022.

The sale of the branch operations in Greece is currently expected to finalise in the first half of 2023, and also remains subject to regulatory approvals and the satisfaction of other conditions, including the completion of operational transfers. At 31 December 2022, €2.1bn in total assets, including €0.3bn of loans and advances to customers, and €2.2bn in total liabilities, including €2.1bn of customer accounts, were reclassified as held for sale in accordance with IFRS 5 and losses and impairments of €111m were recognised in 2022.

Given the scale and complexity of these transactions, there is a risk of delay in implementation. However, the likelihood of the completion of these sales in 2023 is judged to be highly probable.

To improve our service to wholesale clients and in response to the requirement for an Intermediate Parent Undertaking in line with EU Capital Requirements Directive for European Union banking entities ('CRD V'), we are simplifying our corporate structure. On 30 November 2022, HSBC Continental Europe completed the change of control transactions for HSBC Germany and HSBC Malta which became subsidiaries of HSBC Continental Europe from that date. HSBC Germany is planned to become a branch of HSBC Continental Europe in 2023.

HSBC Continental Europe transferred its Private Banking business in France to HSBC Private Bank (Luxembourg) SA on 1 October 2022. HSBC Continental Europe is planning to acquire HSBC Private Bank (Luxembourg) SA in 2023 in response to the requirement for an Intermediate Parent Undertaking in line with the CRD V regulation.

2022 adjusted results per business line

Commercial Banking

Adjusted profit before tax was €412m, up from €223m in 2021, driven by growth in revenues in Global Payment Solutions and lower staff costs following the implementation of the restructuring plan in 2021, partly offset by an increase in expected credit losses.

Customer loan balances of €24.8bn at 31 December 2022 and customer deposits of €34.9bn were up €6.9bn and €6.3bn respectively, mainly driven by the acquisition of HSBC Germany and HSBC Malta.

HSBC Continental Europe is a key partner for companies seeking to set up abroad and for foreign companies seeking to expand in Continental Europe.

Global Banking

Adjusted profit before tax was €207m, down from €256m in 2021, driven by provisions for expected credit losses, compared to a net release in 2021. Revenues increased to €516m from €503m in 2021, reflecting higher revenues in Global Payment Solutions, partly offset by lower Lending revenues and the impact of lower levels of market activity leading to reduced revenues in Capital Markets and M&A.

Total customer loan balances of €14.0bn at 31 December 2022 were down by €2.9bn compared to 2021, driven by lower loans to corporate clients, partly due to repayment of state-backed loans and not

completely offset by the acquisition of HSBC Germany. Total customer deposits of €20.4bn at 31 December 2022 were up by 45% compared to 2021, reflecting business growth and the acquisition of HSBC Germany.

Global Banking in HSBC Continental Europe operates as an integral part of the Group's Global Banking franchise in order to help its clients seize international growth opportunities, leveraging the Group's expertise and global network.

Markets and Securities Services

Adjusted profit before tax was €4m, compared to a loss of €116m in 2021, mainly driven by higher revenues in Global Debt Markets (helped by Sovereign Debt market making activities), Securities Financing, Foreign Exchange and Securities Services.

Customer deposits of €20.5bn at 31 December 2022 were up by €15.8bn following the acquisition of HSBC Germany.

HSBC Continental Europe plays a key role as the Group's strategic platform for euro-denominated rates products, being a primary dealer in all European debt issuances, and has extended its product capacities, in particular to equities products involving European stocks.

Global Banking and Markets Other

Global Banking and Markets Other comprises activities that are outside of the perimeter of Markets and Securities Services and Global Banking. The main activity is Principal Investments which brings together HSBC's core principal investing activities. The adjusted loss before tax was €42m, compared to a profit of €3m in 2021.

Wealth and Personal Banking

Adjusted profit before tax was €153m, up from a profit of €109m in 2021, driven by lower operating expenses and higher interest income, partly offset by lower revenues in Asset Management and Insurance which were impacted by less favourable market conditions.

Customer loan balances of €2.9bn at 31 December 2022 were down compared to €24.6bn in 2021, driven by the classification of €21.6bn of loan balances to held for sale in accordance with IFRS 5, partly offset by the acquisition of HSBC Germany and HSBC Malta.

Customer deposits of €7.4bn were down from €22.4bn in 2021, driven by the classification of €21.9bn of deposits to held for sale in accordance with IFRS 5, partly offset by the acquisition of HSBC Germany and HSBC Malta.

Corporate Centre

The Corporate Centre comprises operating income and expense items that are not allocated to the global businesses. The adjusted profit before tax was €16m, compared to a loss of €54m in 2021.

Appendix

The audit procedures relating to the accounts are ongoing.

Summary consolidated income statement

Retail banking operations in France were re-classified as discontinued operations in accordance with IFRS 5 and accordingly the profit/loss of the discontinued operations has been reported separately in the income statement.

	€m	Year 2022	Year 2021
Continuing operations			
Net interest income		1,060	759
Net fee income		752	720
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		332	81
Other operating income/(expense)		43	304
Net operating income before change in expected credit losses and other credit impairment charges		2,187	1,864
Change in expected credit losses and other credit impairment charges		(127)	(41)
Total operating expenses		(1,746)	(1,649)
Share of profit/(loss) in associates and joint ventures		—	1
Profit/(loss) before tax		314	175
Tax expense		(43)	50
Profit/(loss) after tax in respect of continuing operations		271	225
Profit/(loss) after tax in respect of discontinued operations		(1,233)	43
Profit/(loss) for the period		(962)	268
Profit/(loss) attributable to shareholders of the parent company		(964)	269
Profit/(loss) attributable to non-controlling interests		2	(1)

Summary of consolidated income statement – prior to classification of retail banking operations in France as discontinued operations in accordance with IFRS 5

	Half year to		Year	
€m	31-Dec-2022	31-Dec-2021	2022	2021
Net interest income	632	507	1,188	987
Net fee income	472	458	957	915
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	123	(9)	334	81
Other operating income/(expense)	(1,720)	111	(1,754)	380
Net operating income before change in expected credit losses and other credit impairment charges	(493)	1,067	725	2,363
Change in expected credit losses and other credit impairment charges	(123)	(34)	(123)	(33)
Total operating expenses	(1,104)	(935)	(2,138)	(2,046)
Share of profit/(loss) in associates and joint ventures	—	—	—	1
Profit/(loss) before tax	(1,720)	98	(1,536)	285
Tax expense	631	17	574	(17)
Profit/(loss) for the period	(1,089)	115	(962)	268
Profit/(loss) attributable to shareholders of the parent company	(1,091)	116	(964)	269
Profit/(loss) attributable to non-controlling interests	2	(1)	2	(1)

Accounting policy for classifying non-current assets or disposal groups as ‘held for sale’

HSBC Continental Europe classifies non-current assets or disposal groups (including assets and liabilities) as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups, and the sale must be highly probable.

At 31 December 2022, HSBC Continental Europe judged that the sale of its retail banking operations in France and its branch operations in Greece were highly probable to complete in 2023. As such, and in accordance with IFRS 5, the disposal groups were classified as held for sale and re-measured at the lower of the carrying amount and fair value less costs to sell.

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, year-on-year foreign currency translation differences and the results of discontinued operations.

Significant revenue items by business line

	Continuing operations						Total
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	
€m	Year 2022						
Reported revenue	406	906	370	516	(5)	(6)	2,187
Significant revenue items	60	—	(5)	—	26	97	178
Adjusted revenue	466	906	365	516	21	91	2,365
	Year 2021						
Reported revenue	462	726	254	503	(90)	9	1,864
Significant revenue items	—	—	6	—	155	(6)	155
Adjusted revenue	462	726	260	503	65	3	2,019

Significant cost items by business line

	Continuing operations						Total
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	
€m	Year 2022						
Reported operating expenses	(326)	(462)	(360)	(270)	(97)	(231)	(1,746)
Significant cost items	12	53	—	—	35	158	258
– Impairment of goodwill, intangibles and tangibles	—	(13)	—	—	—	8	(5)
– Restructuring cost and other significant items	12	66	—	—	35	150	263
Adjusted operating expenses	(314)	(409)	(360)	(270)	(62)	(73)	(1,488)
	Year 2021						
Reported operating expenses	(370)	(425)	(376)	(260)	(65)	(153)	(1,649)
Significant cost items	5	(10)	—	—	1	95	91
– Impairment of goodwill, intangibles and tangibles	—	—	—	—	—	2	2
– Restructuring cost and other significant items	5	(10)	—	—	1	93	89
Adjusted operating expenses	(365)	(435)	(376)	(260)	(64)	(58)	(1,558)

Net impact on profit before tax by business line

	Continuing operations						Total
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	
€m	Year 2022						
Reported profit/(loss) before tax	81	359	9	207	(103)	(239)	314
Significant revenue items	60	—	(5)	—	26	97	178
Significant cost items	12	53	—	—	35	158	258
Adjusted profit/(loss) before tax	153	412	4	207	(42)	16	750
Net impact on reported profit and loss	72	53	(5)	—	61	255	436
	Year 2021						
Reported profit/(loss) before tax	104	233	(122)	256	(153)	(143)	175
Significant revenue items	—	—	6	—	155	(6)	155
Significant cost items	5	(10)	—	—	1	95	91
Adjusted profit/(loss) before tax	109	223	(116)	256	3	(54)	421
Net impact on reported profit and loss	5	(10)	6	—	156	89	246

Adjusted results by business line

	Continuing operations						Total
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	
€m	Year 2022						
Net operating income before change in expected credit losses and other credit impairment charges	466	906	365	516	21	91	2,365
Change in expected credit losses and other credit impairment charges	1	(85)	(1)	(39)	(1)	(2)	(127)
Total operating expenses	(314)	(409)	(360)	(270)	(62)	(73)	(1,488)
Share of profit in associates and joint ventures	—	—	—	—	—	—	—
Adjusted profit/(loss) before tax	153	412	4	207	(42)	16	750
	Year 2021						
Net operating income before change in expected credit losses and other credit impairment charges	462	726	260	503	65	3	2,019
Change in expected credit losses and other credit impairment charges	12	(68)	—	13	2	—	(41)
Total operating expenses	(365)	(435)	(376)	(260)	(64)	(58)	(1,558)
Share of profit in associates and joint ventures	—	—	—	—	—	1	1
Adjusted profit/(loss) before tax	109	223	(116)	256	3	(54)	421

Contacts : Sophie Ricord
Raphaële-Marie Hirsch

sophie.ricord@hsbc.fr
raphaele.marie.hirsch@hsbc.fr

+33 (0) 6 89 10 17 62
+33 (0) 7 64 57 35 55

HSBC Continental Europe

Headquartered in Paris, HSBC Continental Europe is an indirectly held subsidiary of HSBC Holdings plc. HSBC Continental Europe includes, in addition to its banking, insurance and asset management activities based in France, the business activities of 10 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden) and two bank subsidiaries (Germany and Malta) acquired in November 2022. HSBC Continental Europe's mission is to serve both 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 the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US\$2,967bn at 31 December 2022, HSBC is one of the world's largest banking and financial services organisations.