

1 August 2023

HSBC CONTINENTAL EUROPE INTERIM RESULTS 2023

On 31 July 2023, HSBC Continental Europe's Board of Directors approved the bank's consolidated financial statements for the first half of 2023.

HSBC Continental Europe's performance during the first half of 2023 was positive with growth in profitability driven by wholesale banking revenues, demonstrating the strength of our global franchise and international connectivity, coupled with low credit losses and a favourable cost performance.

HSBC Continental Europe acquired HSBC Germany and HSBC Malta on 30 November 2022 and therefore the below financials include the results of these two entities for the first half of 2023.

On 14 April 2023, we announced that the sale of the retail banking operations in France no longer met the criteria to be classified as held for sale, resulting in a reversal of €1.9bn of previously recognised impairment. On 14 June 2023, we signed a further Memorandum of Understanding with the buyer regarding certain potential changes to the terms of the sale which are designed to enable the buyer to satisfy its future capital requirements (following significant interest rate rises since the sale was first agreed) and to obtain regulatory approval for the transaction. There is no immediate change to the accounting treatment of the business under IFRS. The transaction remains subject to information and consultation processes with respective works councils and regulatory approvals, and the parties aim to complete on 1 January 2024.

These transactions support our ambition to become the leading international wholesale bank in Continental Europe with an integrated pan-European platform anchored in Paris, complemented by a targeted wealth offering.

Reported profit before tax was €2,587m, up from €54m in the first half of 2022, and included the reversal of the impairment previously recognised in relation to the planned sale of retail banking operations in France (€1,943m).

Reported net operating income before change in expected credit losses and other credit impairment charges was €3,951m, up from €1,029m in the first half of 2022, and included the reversal of the impairment previously recognised in relation to the planned sale of retail banking operations in France and the impact of the acquisition of HSBC Germany and HSBC Malta. Income in the first half of 2022 also included the exceptional loss recognised in relation to the sale of the branch operations in Greece of €111m. Commercial Banking and Global Banking revenues increased in the first half of 2023, particularly in Global Payment Solutions¹, which benefitted from rising interest rates and higher deposit balances.

Reported change in expected credit losses and other credit impairment charges was a charge of €13m, whereas it was nil in the first half of 2022. The cost of risk², at 4bps, remained low and the increase was mostly driven by specific provisions.

¹ Formerly known as Global Liquidity and Cash Management

² Annualised cost of risk divided by customer loans outstanding at the end of the period (in bps)

Reported operating expenses were €1,351m, up from €975m in the first half of 2022, including the impact of the acquisition of HSBC Germany and HSBC Malta. Offsetting this were lower infrastructure costs and lower contributions to the Single Resolution Fund.

Reported profit attributable to shareholders of the parent company for the period was €1,933m for the half year to 30 June 2023, compared with €31m in the first half of 2022.

The consolidated balance sheet of HSBC Continental Europe showed total assets of €287bn at 30 June 2023, compared to €279bn at 31 December 2022.

At 30 June 2023, HSBC Continental Europe reported an average liquidity coverage ratio (LCR)³ of 159% and an average net stable funding ratio (NSFR)⁴ of 138%. The bank's fully loaded common equity tier 1 (CET1) ratio was 15.3% and the fully loaded total capital ratio was 20.4%. The fully loaded leverage ratio was 4.3%. The solvency ratio of the Life Insurance subsidiary was 264%⁵.

Post-balance sheet events

The sale of HSBC Continental Europe's branch operations in Greece to Pancreta Bank SA was completed on 28 July 2023 after close of business. This followed the signing of a sale and purchase agreement on 24 May 2022.

³ Computed in respect of the EU Delegated act

⁴ Computed in respect of CRR II (Regulation EU 2019/876)

⁵ LCR, NSFR and the solvency ratio of the Life Assurance subsidiary are unaudited

Appendix

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

Summary consolidated income statement

	€m	Half year to 30 June 2023	Half year to 30 June 2022
Net interest income		1,169	556
Net fee income		679	487
Net income from financial instruments held for trading or managed on a fair value basis		63	211
Other operating income/(expense)		2,040	(225)
Net operating income before change in expected credit losses and other credit impairment charges		3,951	1,029
Change in expected credit losses and other credit impairment charges		(13)	—
Total operating expenses		(1,351)	(975)
Share of profit/(loss) in associates and joint ventures		—	—
Profit/(loss) before tax		2,587	54
Tax expense		(643)	(23)
Profit/(loss) for the period		1,944	31
Profit/(loss) attributable to shareholders of the parent company		1,933	31
Profit/(loss) attributable to non-controlling interests		11	—

Reported profit/(loss) for the period by global business

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
€m	Half year to 30 June 2023						
Net operating income before change in expected credit losses and other credit impairment charges	2,344	713	433	370	8	83	3,951
Change in expected credit losses and other credit impairment charges	11	22	1	(48)	1	—	(13)
Total operating expenses	(410)	(290)	(394)	(189)	(17)	(51)	(1,351)
Share of profit/(loss) in associates and joint ventures	—	—	—	—	—	—	—
Reported profit/(loss) before tax	1,945	445	40	133	(8)	32	2,587
	Half year to 30 June 2022						
Net operating income before change in expected credit losses and other credit impairment charges	278	410	186	251	27	(123)	1,029
Change in expected credit losses and other credit impairment charges	(1)	11	—	(10)	1	(1)	—
Total operating expenses	(326)	(221)	(201)	(140)	(36)	(51)	(975)
Share of profit/(loss) in associates and joint ventures	—	—	—	—	—	—	—
Reported profit/(loss) before tax	(49)	200	(15)	101	(8)	(175)	54

Notable items

On 1 January 2023, HSBC Continental Europe updated its financial reporting framework to no longer report 'adjusted' results, which exclude the impact of significant items. 'Notable items', which are components of our income statement that management considers as outside the normal course of business and generally non-recurring in nature, are now separately disclosed.

	€m	Half year to 30 June 2023	Half year to 30 June 2022
Notable items – Revenue		1,968	(93)
– Disposals, acquisitions and investment		1,986	(101)
– Changes in fair value of financial instruments		(18)	7
– Restructuring and other related costs		—	1
Notable items – Operating expenses		(45)	(75)
– Disposals, acquisitions and investment		(45)	(19)
– Impairment of non-financial items		—	(9)
– Restructuring and other related costs		—	(47)

For the first half of 2023, the notable items are predominantly related to the reversal of €1.9bn of previously recognised impairment in relation to the sale of the retail banking operations in France, allocated to Wealth and Personal Banking.

Business disposal – Retail banking operations in France

On 14 April 2023, HSBC Continental Europe announced that following significant interest rate rises since the terms of the sale were agreed in 2021, completion of the transaction was less certain and that the business was no longer being classified as held for sale, resulting in a €1.9bn reversal of the previously recognised impairment in respect of the sale.

On 14 June 2023, HSBC Continental Europe signed a further Memorandum of Understanding with the buyer regarding certain potential changes to the terms of the sale which are designed to enable the buyer to satisfy its future capital requirements and to obtain regulatory approval for the transaction. The transaction remains subject to information and consultation processes with respective works councils and regulatory approvals, and the parties aim to complete on 1 January 2024.

Taking into account the potential changes, the transaction is expected to result in the recognition of a pre-tax loss on sale estimated up to €2.0bn upon reclassification of the business as held for sale under IFRS. This is expected during the second half of 2023 provided sufficient progress is demonstrated to support the appropriate level of probability of successful completion.

Changes of control

In response to the requirement for an Intermediate Parent Undertaking in line with EU Capital Requirements Directive for European Union banking entities ('CRD V'), HSBC Continental Europe acquired HSBC Germany and HSBC Malta⁶ on 30 November 2022 and is planning to acquire HSBC Private Bank (Luxembourg) SA in the second half of 2023. HSBC Germany became a branch of HSBC Continental Europe on 30 June 2023.

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.

⁶ HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c

At 30 June 2023, HSBC Continental Europe judged that the sale of its branch operations in Greece was highly probable to complete in the second half of 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.

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts'. As required by the standard, the bank applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. Under IFRS 17 there is no present value of in-force business ('PVIF') asset recognised up front. Instead the measurement of the insurance contract liability takes into account fulfilment cash flows and a contractual service margin representing the unearned profit. In contrast to the group's previous IFRS 4 accounting where profits are recognised up front, under IFRS 17 they are deferred and systematically recognised in revenue as services are provided over the life of the contract. The contractual service margin also includes attributable cost, which had previously been expensed as incurred and which is now incorporated within the insurance liability measurement and recognised over the life of the contract. The impact of the transition in the first half of 2022 was a reduction of €189m on the reported revenue and a reduction of €130m to reported profit before tax.

HSBC Continental Europe

Headquartered in Paris, HSBC Continental Europe is an indirectly held subsidiary of HSBC Holdings plc. In addition to its banking, insurance and asset management activities based in France, HSBC Continental Europe includes activities in other regions, notably the business activities of 10 European branches (Belgium, Czech Republic, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden) and a bank subsidiary in Malta. 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. With assets of US\$3,041bn at 30 June 2023, HSBC is one of the world's largest banking and financial services organisations.

Disclaimer

This press release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the entity. Statements that are not historical facts, including statements about the entity's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Continental Europe makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement. Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements.