

Press release

22 February 2016

HSBC FRANCE 2015 ANNUAL RESULTS - HIGHLIGHTS

In its 8 February 2016 meeting, HSBC France's Board of Directors approved the bank's consolidated financial statements for year 2015.

HSBC France's performance has been achieved facing a difficult economic background in France, with growth and inflation both weak and interest rates historically low. The regulatory framework also changed substantially in 2015.

The bank's profit before tax rose to €618m compared with €232m in 2014 and rose to €548m compared with €496m on an adjusted basis, i.e. excluding significant items¹. The increase was mainly due to growth in insurance company earnings, driven by the positive change in present value of in-force ('PVIF')², coupled with an improved operating performance across the wealth management business lines.

Reported revenue amounted to €2,371m compared with €1,929m in 2014. On an adjusted basis, HSBC France's revenue rose to €2,285m compared with the 2014 figure of €2,186m, including the impact of the change in the PVIF of life insurance policies.

The cost of credit risk was €121m. The normative³ cost of risk represented 0.30% of outstanding client loans, compared with 0.33% in 2014.

Operating expenses, excluding the impact of applying IFRIC 21⁴ in 2014 and the recognition of the contribution of €38m to the Single Resolution Fund, fell 1% at HSBC France on an adjusted basis, showing its firm grip on staff costs and administrative expenses.

Net profit attributable to shareholders of the parent company was €445m in 2015 versus €198m in 2014.

HSBC France's consolidated balance sheet had total assets of €168bn at 31 December 2015, down 16% compared with 31 December 2014. That decrease mainly concerned the capital markets activities, whereas the client loan book continued to grow by €2bn due to further strong loan production.

HSBC France's liquidity position is solid, with a liquidity coverage ratio ('LCR') of 120.2% at 31 December 2015. The bank also has strong capital adequacy, with the common equity tier 1 ('CET1') ratio rising from 14.1% at end 2014 to 14.9% at end 2015. This figure is well above the regulatory minimum of 10%.

¹ See notes on methodology

² See notes on methodology

³ See notes on methodology

⁴ See notes on methodology

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Retail Banking and Wealth Management

In 2015 HSBC France continued to implement the HSBC Group's strategy, recording strong momentum and consolidating its position as a leader in the mass affluent segment by focusing on two areas: wealth management and mortgages.

Increase in life insurance assets under management: In life insurance, assets held by the life insurance company on behalf of customers rose again to €18.9bn (€18.5bn in 2014), continuing the trend set in previous years.

Net new money was positive at €323m and unit linked accounted for 22% of gross new money in life insurance, a sharp increase relative to the 16% for 2014.

An increase in deposits and bank and financial savings: Continuing the growth seen in previous years, bank deposits rose 3% to €14.1bn in 2015, with demand deposits in particular growing 10% to €6.9bn.

Total client assets across the HSBC network in France rose from €36.2bn at end-2014 to €37.6bn at end-2015.

Net interest income remained stable as a result of lower deposit margins and mortgages renegotiations and early repayments offset by strong mortgage origination and increased deposits balances.

Ongoing growth in retail mortgages: New mortgage lending rose to €4.1bn, an increase of €0.8bn from 2014. This high level of loan production followed three years of growth.

There was **growth in assets under management ('AuM')** in the asset management business. Assets under management and distribution amounted to €78bn as at end-2015, rising 4% year-on-year. That growth came mainly from long-term investment products at a time when the equity and bond markets were rising. The HSBC Group's expertise in fixed income in France made a significant contribution to growth in assets under management for international clients.

The quality of the equity and fixed income management was several times recognized by independent investment research provider: Morningstar rewarded HSBC Actions Patrimoine as best fund category France Large Cap Equity.

Commercial Banking

The HSBC Group's unique international footprint enabled Commercial Banking to increase its standing as a partner of choice for small and medium sized French businesses, particularly in their international expansion.

Rising loans outstanding in a gradually recovering economy: Commercial Banking increased its average outstanding long-term and medium-term loan book to €8.2bn, an increase of €0.5bn. Total loans outstanding averaged €10.4bn over 2015.

Stable deposits: After firm growth in 2014, deposits were stable at €10.7bn in 2015, with an increase in demand deposits offset by a similar decrease in term deposits, due to ongoing low interest rates and the limited appeal of bank deposits.

International strategy paying off: HSBC France confirmed its status as a key partner for

French companies seeking to establish themselves abroad, and revenue generated by French customers in other Group entities now equals over a third of the revenues they generate in France. In 2015, those revenues rose another 14% to US\$79m.

At the same time, and despite weak economic conditions, revenues generated by Commercial Banking in France from clients of other HSBC Group entities totalled €72m.

Global Banking and Markets

HSBC France supports its corporate, institutional and government clients with their projects in France and abroad. In capital markets activities, France is the Group's platform for euro fixed income products and structured derivatives.

2015 was characterised by historically low interest rates and high market volatility, due to the Asian crisis and uncertainties within the Eurozone. Regulatory pressure also increased.

The bank's unique international position enables it to support the global growth of large corporations.

Ongoing support for the international development of French companies meant that revenue generated from French clients outside France rose again, and now accounts for over 55% of total revenue generated by French clients within the HSBC Group.

Revenue generated in France by clients of other HSBC Group entities also increased by 7%, despite a difficult economic background in France.

Serving clients with a versatile range of skills: In 2015 HSBC France performed well in Debt Capital Markets ('DCM'), and in equity transactions as lead manager for significant deals (initial public offerings ('IPO')) for Spie and Europcar, capital increase for Cap Gemini and convertible bonds issuance for Airbus, Ingenico and Elis) or mergers and acquisition ('M&A') advisor notably Lafarge/Holcim. This excellent performance offset weakness in lending to corporations, which suffered from thinner deposit and lending margins.

In France, HSBC ranked 7th for IPOs⁵ and 6th for syndicated loans⁶.

In the Markets business, volatility was higher than in 2014 and HSBC France suffered from a macroeconomic environment. However, HSBC France delivered an excellent performance, consistently maintaining its position among the top market makers for Eurozone countries, particularly in France where it ranked fifth among primary dealers.

HSBC ended 2015 in first position among European public issuers for sovereign, supranational, agency and local authority debt with outstanding deal with the European Stability Market ('ESM') and the Kingdom of Spain, and lead managed inaugural issues of bonds for *Agence France Locale* as well as 'green bond' issues for the City of Paris. HSBC was the number one international bank for French bond issues in 2015, confirming its dominant position in hybrid debt issues with Total, and continued to support large French issuers in the Asian markets: EDF, Air Liquide in Taiwan, and CADES in renminbi ('RMB').

⁵ Dealogic 2015 completed transactions

⁶ Dealogic 2015

Private Banking

The Private Banking business focuses on high net worth individuals holding assets of more than €3m with the bank, and is continuing to adjust to the regulatory framework, which is becoming tougher still.

Assets under management increased by 13% to €6.9bn compared with end-2014, driven by net inflows of over €440m.

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Notes to editors:

HSBC in France

HSBC France, joined the HSBC Group in 2000 and switched to the HSBC France brand in November 2005. HSBC France is headquartered in Paris. Serving customers from around 400 offices across France and more than 10,000 employees, HSBC France is a universal bank serving both personal and business customers.

The HSBC Group

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 6,000 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,410bn at 31 December 2015, HSBC is one of the world's largest banking and financial services organisations.

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Notes on methodology

Non GAAP measures

To make it easier to understand the performance review relating to the Group and its subsidiaries, HSBC has elected to supplement the accounting data published with a presentation of the main lines of management accounts on an adjusted basis. This approach consists of restating published figures for the effect of changes in scope and currency variations between the two periods under review, together with certain ‘significant items’, which are listed and quantified below where they concern France:

Significant items

<i>(in millions of euros)</i>	2015	2014
Revenues		
Impact of credit spread on own debt under fair value option	35	(61)
Non qualifying hedges relating to housing loans portfolio	36	(173)
DVA (<i>debit valuation adjustment</i>).....	15	(23)
Expenses		
Restructuring costs and costs to achieve strategic initiatives	(16)	(7)
Total adjustments	70	(264)

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 future experience, taking into account local market conditions and management’s judgment of future local trends.

Economic PVIF includes accounting PVIF, hedging instruments and technical provisions.

IFRIC 21

The retroactive application of IFRIC 21 from 1 January 2014 involves expensing in full, in the first quarter, contributions and taxes paid to a public authority where the taxable event takes place in the first quarter. Previously, those contributions and taxes were usually spread out over the year.

Normative cost of risk aggregates individual impairments and other credit risk provisions.

Figures in this presentation are unaudited

HSBC France is authorised as credit institution and investment services provider by the Autorité de Contrôle Prudentiel et de Résolution (ACPR), regulated by the Autorité des Marchés Financiers and the ACPR, controlled by the European Central Bank.

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