

Press Release

3 August 2016

HSBC FRANCE INTERIM RESULTS 2016

In its 22 July 2016 meeting, HSBC France's Board of Directors approved the bank's consolidated financial statements for the first half of 2016.

HSBC France continues to deploy its strategy based on a universal banking model, with the support of the HSBC Group. HSBC France's performance in the first half of 2016 was achieved in a difficult economic environment, with weak growth and inflation and interest rates remaining historically low in France. The first half of 2016 also saw evolutions in the regulatory framework.

Consolidated profit before tax was €200m, down from €480m in the same period in 2015. On an adjusted basis i.e. excluding significant items¹, profit before tax fell to €183m compared with €434m in 2015. The decrease was mainly due to the decline in insurance company earnings, driven by the negative change in present value of in-force ('PVIF')² and also reflects lower interest income in the French banking business, caused by the ongoing decline in interest rates. The above elements were partly offset by the performance in Global Banking and Markets and a significant improvement in the loan impairment charges.

Reported net operating income before LICs was €1,128m as opposed to €1,366m in the first half of 2015, comprising the impact of significant items³ as well as the negative movement in PVIF of insurance contracts. The decrease in net interest margin in retail and commercial banking, as a result of the low interest rate environment, was partly offset by growing volumes of deposits and loans across all business lines as well as increased revenues in GB&M.

Loan impairment charges totalled €24m, much lower than the year-earlier figure of €52m. The decline was mainly recorded within Commercial Banking. The standardised cost of risk⁴ represented 0.16% of outstanding client loans, compared with 0.27% in the first half of 2015.

Operating expenses totalled €904m in the first half of 2016, compared with €834m in the year-earlier period. The first half of 2016 was adversely affected by a significant increase in the contribution to the Single Resolution Fund and provisions relating to litigations, as well as maintained capital expenditure and investment within the Costs to Achieve (CtA) programme, notably in respect of IT.

Excluding the elements listed above, operating expenses decreased by more than 6%.

¹ See notes on methodology

² See notes on methodology

³ See notes on methodology

⁴ Normative cost of risk aggregates individual impairments and other credit risk provisions.

HSBC France

Net profit attributable to shareholders of the parent company was €171m in the first half of 2016 versus €299m in the year-earlier period. The Board of Directors has decided to pay an interim dividend of €2.00 per share with respect to 2016, representing a total payment of €135m.

HSBC France's consolidated balance sheet had total assets of €196.2bn at 30 June 2016, versus €168.5bn at 31 December 2015. The increase was mainly due to capital markets activities and balance sheet management, arising from derivatives higher market values, along with the relatively low levels of settlement accounts at the end of 2015.

HSBC France displays a solid liquidity position, with a Liquidity Coverage Ratio ('LCR') of 134% along with a Net Stable Funding Ratio ('NSFR')⁵ of 117% as at 30 June 2016. The bank also has strong capital position, with the common equity tier 1 ('CET1') ratio at 14.2% 'phased-in' at end-June 2016 (14.9% at end-2015), well above the regulatory minimum of 10%. 'End point' CET1 was 14.3% at end-June 2016.

⁵ Given uncertainty about the definitive text, the HSBC Group has decided to calculate the NSFR using Basel Committee text BCBS295, and results may not be comparable with those of other banks.

Notes on methodology

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

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

(€ millions)	Half year to	
	30 June 2016	30 June 2015
Revenues		
Impact of credit spread on own debt under Fair Value Option	14	7
Non Qualifying Hedges	(36)	29
DVA (Debit Valuation Adjustment)	9	10
Gain on disposal of our membership interest in Visa Europe	108	-
Expenses		
Restructuring costs and Costs-to-Achieve	(46)	0.2
Settlements and provisions in connection with legal matters	(32)	-
Total significant items	17	46

Present Value of In-Force (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.

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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Notes to editors:

HSBC in France

HSBC France, joined the HSBC Group in 2000 and is headquartered in Paris. Serving customers from around 350 offices across France and around 9,000 employees, HSBC France develops activities in Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets as well as Private Banking.

The HSBC Group

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 4,400 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,608bn at 30 June 2016, HSBC is one of the world's largest banking and financial services organisations.

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