Press Release

31 July 2017

HSBC FRANCE
INTERIM RESULTS 2017

At its 31 July 2017 meeting, HSBC France's Board of Directors approved the bank's consolidated financial statements for the first half of 2017.

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 2017 was achieved in a context of interest rates remaining historically low and improving economic environment.

Consolidated profit before tax was €196m, down from €372m in the same period in 2016. Change in results in the first half is exceptionally affected by a gain recorded on 30 June 2016 on the partial discontinuation of macro hedging relationships under IAS 39 for €172m[1] and the €108m gain on sale of shareholding of Visa Europe in 2016; this was partially offset by a €125m positive change in PVIF[2].

Reported net operating income before LICs was €1,034m as opposed to €1,300m in the first half of 2016. This fall was mainly due to a significant decrease in balance sheet management revenue exceptionally affected, in 2016, by a gain on the partial discontinuation of macro hedging relationships under IAS 39 of €172m and the non-recurring €108m gain on sale of shareholding of Visa Europe. This was partially offset by an increase in income from manufacturing life assurance, which was boosted by a positive €125m change in PVIF linked to movements in interest rates and market indices. Excluding these notable elements, this result reflected the good performance in Global Banking and Markets, and a fall in revenue in Retail Banking and Wealth Management and Commercial Banking activities against a background of remaining low interest rates.

Loan impairment charges showed a net reversal of €4m, representing a significant fall on the previous year when they were €24m. This historically low level reflects both the improved financial situation of businesses across all sectors of the economy and the rigorous management of risk over the last three years. The decrease mainly concerns Commercial banking.

[1] See note on methodology: 1-Review of macro hedge accounting
[2] See note on methodology: 3-Present Value of In-Force long-term insurance business (PVIF)

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Operating expenses totalled €842m in the first half of 2017, compared with €904m in the year-earlier period. The first half of 2016 saw the unfavourable effect of litigation provisions. HSBC France is continuing its programme of spending and investment for growth notably in respect of digital and IT. Excluding the elements mentioned above, costs were reduced by 4% relative to the first half of 2016, including a €15m lower contribution to the Single resolution fund than in the first half of 2016

On an adjusted basis i.e. excluding significant items[3], profit before tax amounted to €262m compared with €355m the previous year. Net profit attributable to shareholders of the parent company was €126m in the first half of 2017.

HSBC France's consolidated balance sheet had total assets of €177.5bn at 30 June 2017, versus €169.4bn at 31 December 2016. The increase was mainly due to capital markets activities.

HSBC France displays a solid liquidity position, with a Liquidity Coverage Ratio ('LCR')[4] of 159% along with a Net Stable Funding Ratio ('NSFR')[5] of 119% as at 30 June 2017. The bank also has strong capital position, with the 'fully loaded' Common Equity Tier 1 ('CET1') ratio at 13.0% at end-June 2017. 'Fully loaded' total capital ratio was 14.3% and 'transitional' Leverage ratio was 3.5% as at end-June 2017.

Summary consolidated income statement

	Half-year to	
	30-jun	30-jun
	2017	2016
	€m	€m
Net interest income	532	627
Net fee income	291	334
Net trading income	209	352
Net (expense)/income from financial instruments designated at fair value	310	(177)
Gains less losses from financial investments	57	123
Net insurance premium income	972	1,018
Other operating income	39	(90)
Net insurance claims, benefits paid and movement in liabilities to policyholders	(1,376)	(888)
Net operating income before loan impairment and other credit risk provisions	**1,034**	1,300
Loan impairment charges and other credit risk provisions	4	(24)
Total operating expenses	(842)	(904)
Profit before tax	**196**	372
Tax expense	(71)	(90)
Profit/(loss) for the year	**125**	282
Profit/(loss) attributable to shareholders of the parent company	**126**	282
Profit attributable to non-controlling interests	(1)	—

[3] See note on methodology: 2-Non GAAP measures
[4] computed in respect of the EU Delegated act
[5] computed in respect of the Basel committee BCBS 295 guidelines

Notes on methodology

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

1- Review of macro hedge accounting

During the final quarter of 2016, in a context of decreasing interest rates, it appeared that some macro cash flow hedge relationships had become ineffective according to IAS 39 policy. Hedge accounting for these items should have been partially discontinued from the 30 September 2015. Because the impact on 2015 financial statement has been considered as non-significant this impact has been recognised in the income statement in 2016, according to IAS 8. During 2016, the persistence of negative interest rates required additional partial de-designations of the hedge relationship that are now accounted in Trading. The partial de-designation generated an impact of €122m (gain) in the income statement as of 31 December 2016. If this situation had been identified in the first half of 2016, the impact on the first half of 2016 would have been €172m (income), and the impact on the second half of 2016 would have been €50m (loss).

Because the impact on 30 June 2016 is significant, the financial statements have been restated to reflect the pre-tax gain of €172m transferred from the cash flow hedge reserve to the income statement during the half year to 30 June 2016. The impact has been booked in the Corporate Centre business line.

2- 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 reported 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 HSBC France:

Significant items

Significant revenue items —(gains)/losses	Half-year to	
	30-Jun	30-Jun
	2017	2016
	€m	€m
Reported revenue	**1,034**	1,300
Significant revenue items	15	-95
– change in credit spread on debt under fair value option	—	-14
– debit valuation adjustment	20	-9
– non-qualifying hedges	-5	36
– gain on sale of shareholding of Visa Europe	—	-108
Adjusted revenue	**1,049**	1,205

Significant cost items —(recoveries)/charges	Half-year to	
	30-Jun	30-Jun
	2017	2016
	€m	€m
Reported operating expenses	**-842**	-904
Significant cost items	51	78
– costs to achieve	51	46
– settlements and provisions in connection with legal and regulatory matters	—	32
Adjusted operating expenses	**-791**	-826

Net impact on profit before tax	Half-year to	
	30-Jun	30-Jun
	2017	2016
	€m	€m
Reported profit/(loss) before tax	**196**	372
Significant revenue items	15	-95
Significant cost items	51	78
Adjusted profit/(loss) before tax	**262**	355
Net impact on reported profit and loss	66	-17

3- PVIF

HSBC France, through its HSBC Assurances Vie (France) subsidiary, accounts for the present value of future profits from existing insurance policies as an asset.

The PVIF (present value of in-force long-term insurance business) calculation is based on assumptions that take into account business risks and uncertainties. When projecting cash flows, HSBC Assurances Vie (France) makes a series of assumptions regarding future experience, taking into account local market conditions and management’s judgment of future local trends.

As at 30 June 2017 the PVIF movement was €29m positive versus a negative €96m in the first half of 2016.

Figures in this presentation are unaudited

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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 320 offices across France and around 9,000 employees, HSBC France develops activities in Retail Banking and Wealth Management, Commercial Banking, Global Baking 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 3,900 offices in 67 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,492bn at 30 June 2017, HSBC is one of the world's largest banking and financial services organisations.

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