

6 August 2018

**HSBC FRANCE
INTERIM RESULTS 2018
AND CHANGE OF OWNERSHIP OF HSBC BANK PLC
EUROPEAN BRANCHES, OPERATIONS AND SUBSIDIARIES**

Interim results 2018

On 3 August 2018, HSBC France's Board of Directors approved the bank's consolidated financial statements for the first half of 2018.

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 2018 was achieved in an environment of gradually improving economic growth both in France and abroad. However, historically low interest rates in Europe continues to have an impact on the net interest margin.

Reported consolidated profit before tax was EUR10m, a sharp decrease from the EUR196m recorded in the first half of 2017. The result of the first half of 2018 is particularly affected by low revenues in fixed income activities against the backdrop of strong variation in volatility levels and low liquidity in Euro rates markets. Half year results also reflect the impact of ongoing low interest rates on the profitability of retail banking in France.

Reported net operating income before change in expected credit losses and other credit impairment charges was EUR903m, from EUR1,034m in the first half of 2017. Revenue was strongly burdened by a weak customer demand and margin compression on Eurozone sovereign debt markets. However, HSBC maintains its positions, ranking third in European government debt for sovereign, supranational, agency and local authority issuers¹.

Change in expected credit losses and other credit impairment charges were EUR15m versus a net reversal of EUR4m in the first half of 2017. At 0.05%, the cost of risk² remains historically low.

Operating expenses totalled EUR878m in the first half of 2018, compared with EUR842m for the same period in 2017. The EUR36m increase includes expenses related to the Greek branch (EUR28m) and the increase in the single resolution fund contribution (EUR9m). Moreover, HSBC France is continuing its programme of spending and investment in IT infrastructure, digital banking and the fight against financial crime.

¹ Source : Bloomberg – Euro SSA – 1st half 2018

² Annualised expected credit losses on stage 3 and purchased or originated credit-impaired assets to total end-of-period outstanding loan portfolio

Reported profit attributable to shareholders of the parent company was EUR20m for the half year to 30 June 2018, compared with EUR126m in the first half of 2017.

The consolidated balance sheet of HSBC France showed total assets of EUR172.1bn at 30 June 2018, versus EUR167.5bn at 31 December 2017. The increase was mainly due to lower settlement accounts in capital markets activities at end-2017 and the new Greek branch accounts for EUR1.8bn.

At 30 June 2018, HSBC France had a 169% liquidity coverage ratio (LCR)³ and a 112% net stable funding ratio (NSFR)⁴. The bank recorded a fully loaded common equity tier 1 (CET1) ratio of 12.2% and a fully loaded total capital ratio of 15.2%. The fully loaded leverage ratio was 3.5%.

Post balance sheet event

Within the framework of the structural change detailed below, HSBC France carried out on 25 July 2018 a EUR100m capital increase, of which EUR6.2m share capital, wholly subscribed by HSBC Bank plc Paris branch.

Change of ownership of HSBC Bank plc European branches, operations and subsidiaries

As political and regulatory change in Europe continues, it is important that HSBC organises its business in a way that supports its pan-European proposition for customers. To achieve this, HSBC France:

- Acquired on 1 August 2018 two European subsidiaries, HSBC Polska Bank SA in Poland and HSBC Institutional Trust Services (Ireland) DAC in Ireland, direct and indirect subsidiaries of HSBC Bank plc respectively;
- Will acquire the activities of seven European branches (in Belgium, the Czech Republic, Ireland, Italy, Luxembourg, the Netherlands and Spain) from HSBC Bank plc. The acquisition of these activities is expected to be completed during the first quarter of 2019.

These HSBC businesses currently service both Global Banking and Markets and Commercial Banking customers. In particular, HSBC businesses in Ireland and Luxembourg provide securities services to fund and corporate customers.

These changes have been and will be approved by the appropriate supervisory authorities and the relevant Boards of Directors.

All entities and activities acquired and to be acquired had a combined profit before tax of US\$203m (EUR168m) in 2017, and a total balance sheet of US\$15.1bn (EUR13.0bn) at 31 December 2017.

HSBC France is a 99.99% subsidiary of HSBC Bank plc. This restructuring, internal to HSBC Bank plc, will not impact the capital ratios of HSBC France.

³ Computed in respect of the EU Delegated act

⁴ Computed in respect of BCBS 295 guidelines

Appendix

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

Summary consolidated income statement

in EUR million	Half year to		
	30-June-2018	30-June-2017	31-Dec-2017
Net interest income	500	532	516
Net fee income	286	291	283
Net income from financial instruments held for trading or managed on a fair value basis ²	59	187	104
Other operating income/expense	58	24	(30)
Net operating income before change in expected credit losses and other credit impairment charges	903	1,034	873
Change in expected credit losses and other credit impairment charges	(15)	4	(85)
Total operating expenses	(878)	(842)	(765)
Profit before tax ^{1,2}	10	196	23
Tax expense ²	10	(71)	28
Profit for the period ²	20	125	51
Profit attributable to shareholders of the parent company	20	126	51
Profit attributable to non-controlling interests	—	(1)	—

¹ The group adopted IFRS 9 on 1 January 2018. Comparative information has not been restated.

² From 1 January 2018, certain financial liabilities which contain both deposit and derivative components are classified as 'Financial liabilities designated at fair value'. These were previously included in 'Trading liabilities'. As a consequence, changes in fair value of these instruments attributable to changes in own credit risk are recognised in other comprehensive income rather than profit or loss from this date. Comparative data have not been restated. For the half-year to 30 June 2017, a restatement would have increased 'Net income from financial instruments held for trading or managed on a fair value basis' by EUR 48 million (half-year to 31 December 2017: EUR 38 million) and increased tax expense by EUR 17 million (half-year to 31 December 2017: EUR 13 million), with an equivalent net decrease in other comprehensive income.

³ In 2017 'Change in expected credit loss and other credit impairment charges' includes loan impairment charges.

Non-GAAP financial 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 business accounts on an 'adjusted' basis.

This approach consists of restating published figures for the effect of changes in perimeter 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.

in EUR million	Half year to		
	30-June-2018	30-June-2017	31-Dec.-2017
Reported revenue	903	1,034	873
Significant revenue items	(3)	15	9
– debit valuation adjustment	(3)	20	8
– fair value movement on non-qualifying hedges	—	(5)	1
Adjusted revenue	900	1,049	882
Reported operating expenses	(878)	(842)	(765)
Significant cost items	24	51	39
– costs to achieve	—	51	30
– costs associated with the UK's exit from the EU	24	—	9
Adjusted operating expenses	(854)	(791)	(726)
Reported profit/(loss) before tax	10	196	23
Significant revenue items	(3)	15	9
Significant cost items	24	51	39
Adjusted profit/(loss) before tax	31	262	71
Net impact on reported profit and loss	(21)	(66)	(48)

Adjusted results by business line

	Half year to 30 June 2018					
	Retail Banking and Wealth Management	Commercial Banking	Global Banking and Markets	Private Banking	Corporate Centre	Total
<i>in EUR million</i>						
Net operating income before change in expected credit losses and other credit impairment charges	406	259	218	27	(10)	900
Change in expected credit losses and other credit impairment charges	(3)	(12)	(3)	1	2	(15)
Total operating expenses	(409)	(185)	(211)	(23)	(26)	(854)
Adjusted profit before tax	(6)	62	4	5	(34)	31
	Half year to 30 June 2017					
Net operating income before change in expected credit losses and other credit impairment charges	416	260	375	25	(27)	1,049
Change in expected credit losses and other credit impairment charges	(5)	3	7	(1)	—	4
Total operating expenses	(376)	(175)	(203)	(21)	(16)	(791)
Adjusted profit before tax	35	88	179	3	(43)	262
	Half year to 31 December 2017					
Net operating income before change in expected credit losses and other credit impairment charges	345	258	282	24	(27)	882
Change in expected credit losses and other credit impairment charges	(6)	4	(83)	—	—	(85)
Total operating expenses	(368)	(170)	(161)	(22)	(5)	(726)
Adjusted profit before tax	(29)	92	38	2	(32)	71

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Note to editors:

HSBC in France

HSBC France joined the HSBC Group in 2000 and is headquartered in Paris. Serving customers from around 310 offices across France and employing around 9,000 employees, HSBC France conducts activities in Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets and Global Private Banking.

HSBC Holdings plc

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 3,800 offices in 66 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,607bn at 30 June 2018, HSBC is one of the world's largest banking and financial services organisations.