

# Press release

21 February 2017

## HSBC FRANCE 2016 ANNUAL RESULTS - HIGHLIGHTS

At the 8 February 2017 meeting, HSBC France's Board of Directors approved the bank's consolidated financial statements for year 2016.

Net profit attributable to shareholders of the parent company was €310m in 2016 versus €445m in 2015 and €198m in 2014.

The bank's reported profit before tax was €432m compared with €618m in 2015 and €232m in 2014. On an adjusted basis<sup>1</sup>, profit before tax was €663m versus €548m in the previous year.

Underlying results in 2016 show increased operational performance in Global Banking and Markets, a significant decrease in loan impairment charges notably in Commercial Banking due to improvements in the economic environment and a fall in revenue in Retail Banking and Wealth Management as a result of low interest rates.

HSBC France's results have been achieved against a background of low interest rates which impacted the net interest margin and has driven significant mortgage renegotiations in 2015 and 2016.

Reported net operating income stands €2,317m from €2,371m in 2015. Adjusted revenue was €2,250m in 2016 compared to €2,283m in the previous year.

Loan impairment charges were €73m, a significant decrease compared to €121 in 2015. The normative<sup>2</sup> cost of risk represented 0.21% of outstanding client loans, compared with 0.32% in 2015.

Reported operating expenses were €1,812m compared to €1,632m in 2015. 2016 recorded exceptional elements, notably goodwill impairment totalling €127m in both Retail Banking and Wealth Management and Private Banking as well as costs to achieve including the voluntary redundancy plan announced in September 2016. Adjusted operating expenses were €1,514m including a €19m increase in the contribution to the European Single Resolution Fund.

HSBC France's consolidated balance sheet had total assets of €169bn at 31 December 2016, stable compared with 31 December 2015. The client loan book rose 7% to €41bn, growing in all business lines. Customer deposits increased 4% to €34bn with steady collection across all businesses.

At 31 December 2016, HSBC France had a liquidity coverage ratio ('LCR') of 122% and a fully loaded common equity tier 1 ('CET1') ratio of 13.1%.

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<sup>1</sup> Adjusted results restate the effects of change in credit spread on own debt under Fair Value option, non qualifying hedges, Debit Valuation Adjustment, Gain on sale of shareholding of Visa Europe, Costs to Achieve, Settlement and provisions in connection with legal and regulatory matters and Goodwill impairment. See notes on methodology

<sup>2</sup> See notes on methodology

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## Global Banking and Markets

HSBC France benefits from a unique international positioning allowing it to support corporate, institutional and government clients with their projects in France and abroad. In capital markets, France is the Group's platform for euro fixed income products and structured rates derivatives.

Adjusted profit before tax was €492m compared to €142m in 2015. These results include €180m positive accounting impacts in 2016, relating mainly to the partial discontinuation of macro-hedging deals held by Balance Sheet Management.

**In Global Markets**, 2016 was characterised by high market volatility in relation notably with uncertainties around key political and macro-economic events. Despite these conditions, HSBC France returned a highly satisfactory performance for Global Markets activities, particularly in structured interest rate products, ranking #4 in the French DCM league table and maintained its leading position in European government debt for sovereign, supranational, agency and local authority issuers. In 2016, HSBC ranked #2 in the league table of the most active primary dealers in French government securities (*Spécialistes en Valeurs du Trésor – SVT*)<sup>3</sup>

**In 2016 Global Banking** set itself apart by managing issues with very long maturities for the French, Italian, Belgian and Spanish governments as well as multi-tranche, multi-currency and hybrid issues. HSBC also continued to support its issuer clients in major international transactions and in new markets, notably Green Bonds and through record issuance of *Formosa* and *Schuldscheindarlehen* securities.

The bank has been active alongside its large French clients with advisory roles in significant cross-border deals. HSBC France also participated in a number of export finance deals which helped it to achieve its #1 ranking in the 'Coface - ECA backed-financing' league table<sup>4</sup>.

Revenue generated by French clients in international markets rose by 5% relative to 2015 at constant exchange rates, and continues to account for the majority of revenue generated by French clients within the HSBC Group. Revenue in France from clients of other Group entities was stable, against a background of continued difficult economic conditions in France.

## Commercial Banking

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.

Adjusted profit before tax was €148m compared to €122m in 2015, benefitting from a sharp decrease in loan impairment charges despite the impact of low interest rates on margins.

**An increase in loans outstanding in a gradually recovering economy:** Commercial Banking increased its outstanding long-term and medium-term loan book by 12% to €8.7bn, through the strong origination. Total loans outstanding was €10.4bn, an increase of 6% over 2015.

**Increasing deposits:** deposits grew to €10.2bn in 2016. Average deposits balances rose by 3%.

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<sup>3</sup> Source: Agence France Trésor

<sup>4</sup> Source: Dealogic

**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 accounted for almost one-third of the revenues they generate in France. In 2016, those revenues rose another 11%.

At the same time, and despite weak economic conditions, revenues generated by Commercial Banking in France from clients of other HSBC Group entities increased by 5%.

## Retail Banking and Wealth Management

HSBC France continued to implement the HSBC Group's strategy and supports the mass affluent segment customers by focusing on two areas: wealth management and mortgages.

2016 saw significant progress in digital with the launch of the biometric authentication (Touch ID), a complete online account opening and mortgage origination. HSBC France has been the first universal bank in France to launch an account aggregation service.

In 2016, RBWM has been affected by the continuing low rate environment. Adjusted profit before tax was €70m in 2016 compared to €321m the previous year. These results include the PVIF movement (€-33m in 2016 and €+135m in 2015).

Net interest income fell in 2016 as a result of the historically low interest rate environment and lasting mortgage renegotiations. This movement is partly offset by increased loans and deposit balances.

**An increase in deposits and bank and financial savings:** 2016 saw another growth in bank deposits reaching €14.6bn. Average deposits balances rose 3% with demand deposits in particular growing 7%.

Total client assets across the HSBC network in France rose from €37.3bn at end-2015 to €38.1bn at end-2016.

**New mortgage lending** was €3.5bn. Total loans outstanding reached €17.8bn.

**Increase in life insurance assets under management:** In life insurance, assets held by the life insurance company on behalf of customers rose to €19.1bn (from €18.6bn in 2015). The unit-linked part grew by 4% and now represent 17.6% of outstandings versus 17.4% the previous year.

Net new money in the life insurance subsidiary was positive at €146m.

**There was growth in assets under management ('AuM')** in the asset management business. Assets under management and distribution for retail, corporate and institutional clients amounted to €81bn as at end-2016, rising 4% year-on-year. The HSBC Group's expertise in fixed income in France made a significant contribution to growth in assets under management for international clients.

## Private Banking

The Private Banking business focuses on high net worth individuals.

Assets under management increased by 3% to €7.2bn compared with 2015, driven by positive net inflows mainly from domestic customers and mainly arising from referrals from other business lines.

## 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 business accounts on an "adjusted" basis. This approach consists of restating reported 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:

#### Year 2016

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other including inter- segment	Total
<b>Reported net operating income before LICs</b>	<b>883</b>	<b>580</b>	<b>864</b>	<b>45</b>	<b>(55)</b>	<b>2 317</b>
Revenue significant items	59	31	(10)	-	(13)	67
<i>Change in credit spread on debt under fair value option</i>	-	-	-	-	(11)	(11)
<i>Non qualifying hedges</i>	(18)	-	(7)	-	(2)	(27)
<i>Debit valuation adjustment</i>	-	-	(3)	-	-	(3)
<i>Gain on sale of shareholding of Visa Europe</i>	77	31	-	-	-	108
<b>Adjusted net operating income before LICs</b>	<b>824</b>	<b>549</b>	<b>874</b>	<b>45</b>	<b>(42)</b>	<b>2 250</b>
<b>Loan impairment charges</b>	<b>(15)</b>	<b>(59)</b>	<b>2</b>	<b>(1)</b>	<b>-</b>	<b>(73)</b>
<b>Reported operating expenses</b>	<b>(821)</b>	<b>(349)</b>	<b>(403)</b>	<b>(99)</b>	<b>(140)</b>	<b>(1 812)</b>
Expenses significant items	(82)	(7)	(19)	(63)	(127)	(298)
<i>Costs to Achieve</i>	(18)	(7)	(6)	-	(127)	(158)
<i>Settlement and provisions in connection with legal and regulatory matters</i>	-	-	(13)	-	-	(13)
<i>Goodwill impairment</i>	(64)	-	-	(63)	-	(127)
<b>Adjusted operating expenses</b>	<b>(739)</b>	<b>(342)</b>	<b>(384)</b>	<b>(36)</b>	<b>(13)</b>	<b>(1 514)</b>
<b>Reported profit before tax</b>	<b>47</b>	<b>172</b>	<b>463</b>	<b>(55)</b>	<b>(195)</b>	<b>432</b>
Total significant items	(23)	24	(29)	(63)	(140)	(231)
<b>Adjusted profit before tax</b>	<b>70</b>	<b>148</b>	<b>492</b>	<b>8</b>	<b>(55)</b>	<b>663</b>

#### Year 2015

(millions of euros)	Retail banking and wealth management	Commercial banking	Global banking and markets	Private banking	Other including inter- segment	Total
<b>Reported net operating income before LICs</b>	<b>1 148</b>	<b>593</b>	<b>579</b>	<b>51</b>	<b>-</b>	<b>2 371</b>
Revenue significant items	36	-	15	-	35	86
<i>Change in credit spread on debt under fair value option</i>	-	-	-	-	35	35
<i>non qualifying hedges</i>	36	-	-	-	-	36
<i>Debit valuation adjustment</i>	-	-	15	-	-	15
<b>Adjusted net operating income before LICs</b>	<b>1 112</b>	<b>593</b>	<b>564</b>	<b>51</b>	<b>(35)</b>	<b>2 285</b>
<b>Loan impairment charges</b>	<b>(20)</b>	<b>(93)</b>	<b>(7)</b>	<b>(1)</b>	<b>-</b>	<b>(121)</b>
<b>Reported operating expenses</b>	<b>(773)</b>	<b>(378)</b>	<b>(420)</b>	<b>(38)</b>	<b>(23)</b>	<b>(1 632)</b>
Expenses significant items	(2)	-	(5)	(2)	(7)	(16)
<i>Restructuring costs</i>	(2)	-	(5)	(2)	(7)	(16)
<b>Adjusted operating expenses</b>	<b>(771)</b>	<b>(378)</b>	<b>(415)</b>	<b>(36)</b>	<b>(16)</b>	<b>(1 616)</b>
<b>Share of profit in associates</b>	-	-	-	-	-	-
<b>Reported profit before tax</b>	<b>355</b>	<b>122</b>	<b>152</b>	<b>12</b>	<b>(23)</b>	<b>618</b>
Total significant items	34	-	10	(2)	28	70
<b>Adjusted profit before tax</b>	<b>321</b>	<b>122</b>	<b>142</b>	<b>14</b>	<b>(51)</b>	<b>548</b>

## **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.

**Normative cost of risk:** individual impairments reported to average outstanding loans.

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Figures in this presentation are unaudited

HSBC France is authorised as a 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 and 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. With around 315 offices across France and around 9,000 employees, HSBC France carries on activities relating to 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 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,375bn at 31 December 2016, HSBC is one of the world's largest banking and financial services organisations.

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