

3 August 2020

HSBC FRANCE INTERIM RESULTS 2020

On 31 July 2020, HSBC France's Board of Directors approved the bank's consolidated financial statements for the first half of 2020.

The strategy of HSBC France is to be a leading international bank in Europe, using the strength of its international network and its corporate and investment banking businesses to serve international wholesale clients, as well as providing a targeted wealth franchise.

HSBC France's performance in the first half of 2020 was achieved in a very difficult context with a sharp downturn of the global economy and high operating expenses related to the accounting of exceptional items. The economic disruption caused by the Covid-19 outbreak, together with the worsened economic outlook, resulted in a material increase in expected credit losses and other credit impairment charges. Interest rates in Europe have remained at historically low levels and the cut in US rates in March 2020 has dampened the net interest margin.

In order to become an integrated Continental European bank with a hub in Paris, connecting its customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world, HSBC France is currently undertaking two important strategic actions: the ongoing review of its retail banking operations in France and a project to restructure its Global Banking and Markets franchise.

In spite of that context, customer revenue was robust, which built solid foundations for HSBC France to implement its strategy in Continental Europe. Throughout the Covid-19 outbreak, HSBC France has actively supported its customers and the wider French economy, including through the granting of new loans under the French Government guarantee scheme for a full-year amount estimated to be more than €5bn.

Reported consolidated loss before tax was €650m, compared with a €51m profit in the first half of 2019, including an increased cost of risk, the impairment of intangible software assets and an unfavourable PVIF¹ movement. In the context of the Covid-19 outbreak, first half performance was affected by adverse economic and financial conditions, particularly historically low interest rates.

Reported net operating income before change in expected credit losses and other credit impairment charges was €930m – down from €1,131m in the first half of 2019. The decrease was mostly related to an unfavourable PVIF movement impacting revenue in Life Insurance and lower net interest income from deposits. However, the decrease was partly offset by a favourable perimeter effect related to HSBC France's European branches² and also by resilient revenue in Commercial Banking driven by increasing loan volumes as clients drew down on new and existing facilities. Revenue for Global Banking and Markets was broadly in line with the first half of 2019, reflecting strong revenue in Capital Markets, Credit and Lending, Securities Services and Global Liquidity and Cash Management (GLCM).

¹ Present Value of In-Force long term insurance business (see appendix).

² HSBC France started to consolidate its branches in Belgium, Czech Republic, Ireland, Italy, Netherlands and Spain into its financial statements on 1 February 2019 and its branch in Luxembourg on 1 March 2019.

Reported change in expected credit losses and other credit impairment charges were €229m, compared with €54m in the first half of 2019. The increase of the cost of risk was mostly related to the effects of the Covid-19 outbreak and reflected the deterioration in the current and future economic outlook.

Reported operating expenses totalled €1,351m in the first half of 2020, compared with €1,026m for the same period in 2019 but on a perimeter that included HSBC France's European branches for four or five months only. These included the impairment of intangible software assets of €283m and contributions to the Single Resolution Fund of €106m (increasing by €49m compared with the first half of 2019). The increase in operating expenses related to these items was partly offset by controlled recurring cost management, particularly in Wealth and Personal Banking³.

Reported loss attributable to shareholders of the parent company was €499m for the half year to 30 June 2020, compared with €52m in the first half of 2019.

The consolidated balance sheet of HSBC France showed total assets of €262bn at 30 June 2020, versus €238bn at 31 December 2019. The increase was mainly due to higher balances in derivatives, cash to central banks and loans to customers, partly offset by a decrease in reverse repos.

At 30 June 2020, HSBC France reported a Liquidity Coverage Ratio (LCR)⁴ of 167% and a Net Stable Funding Ratio (NSFR)⁵ of 122%. The Bank's fully loaded Common Equity Tier 1 (CET1) ratio was 12.6% and the fully loaded total capital ratio was 17.0%. The fully loaded leverage ratio was 3.4%.

³ As a consequence of the global business reorganisation outlined by HSBC Holdings plc in its business update on 18 February 2020, a new business line, Wealth and Personal Banking, has been created by combining Retail Banking and Wealth Management and Global Private Banking.

⁴ Computed in respect of the EU Delegated act.

⁵ Computed in respect of BCBS 295 guidelines.

Appendix

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

Summary consolidated income statement

	€m	Half year to		
		30 June 2020	30 June 2019	31 Dec 2019
Net interest income		534	545	550
Net fee income		437	394	384
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		62	13	17
Other operating income/(expense)		(103)	179	145
Net operating income before change in expected credit losses and other credit impairment charges		930	1,131	1,096
Change in expected credit losses and other credit impairment charges		(229)	(54)	(74)
Total operating expenses		(1,351)	(1,026)	(1,095)
Profit/(loss) before tax		(650)	51	(73)
Tax expense		150	1	(18)
Profit/(loss) for the period		(500)	52	(91)
Profit/(loss) attributable to shareholders of the parent company		(499)	52	(91)
Profit/(loss) attributable to non-controlling interests		(1)	—	—

Present Value of In-Force long term insurance business (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 judgement of future local trends.

In the first half of 2020, the PVIF movement was €-124m, of which €-125m was in Wealth and Personal Banking.

Alternative performance metrics

To measure our performance we also use non-GAAP financial measures, including those derived from our reported results that eliminate factors that distort year-on-year comparisons. The 'adjusted performance' measure removes the impact of 'significant items', listed below, and year-on-year foreign currency translation differences.

	€m	Half year to		
		30-June-2020	30-June-2019	31-Dec.-2019
Reported revenue		930	1,131	1,096
Significant revenue items		(9)	3	(1)
– Debit Valuation Adjustment		(9)	2	(1)
– Non-qualifying hedges		—	1	—
Adjusted revenue		921	1,134	1,095
Reported operating expenses		(1,351)	(1,026)	(1,095)
Significant cost items		297	41	219
– Impairment of other intangible assets		129	—	—
– Costs to achieve		168	—	—
– Restructuring costs and other provisions		—	14	30
– Costs associated with the UK's exit from the EU		—	27	20
– Goodwill impairment		—	—	169
Adjusted operating expenses		(1,054)	(985)	(876)

Adjusted results by business line

HSBC France has changed its segmental reporting. As a consequence of the global business reorganisation outlined by HSBC Holdings plc in its business update on 18 February 2020, a new business line, Wealth and Personal Banking, has been created by combining Retail Banking and Wealth Management and Global Private Banking. In addition, HSBC France has also made realignments within its internal reporting, reallocating some items from Corporate Centre to the business lines. Data below for half years to 30 June 2019 and 31 December 2019 have been restated accordingly. This restatement has no impact and does not change the consolidated financial results.

	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	Half year to 30 June 2020				
€m					
Net operating income before expected credit loss and other credit risk provisions	217	356	329	19	921
Change in expected credit losses and other credit impairment charges	(21)	(101)	(107)	—	(229)
Total operating expenses	(421)	(229)	(380)	(24)	(1,054)
Adjusted profit/(loss) before tax	(225)	26	(158)	(5)	(362)
	Half year to 30 June 2019				
Net operating income before expected credit loss and other credit risk provisions	447	340	334	13	1,134
Change in expected credit losses and other credit impairment charges	4	1	(59)	—	(54)
Total operating expenses	(441)	(216)	(305)	(23)	(985)
Adjusted profit/(loss) before tax	10	125	(30)	(10)	95
	Half year to 31 December 2019				
Net operating income before expected credit loss and other credit risk provisions	438	349	306	2	1,095
Change in expected credit losses and other credit impairment charges	(4)	(70)	—	—	(74)
Total operating expenses	(391)	(216)	(248)	(21)	(876)
Adjusted profit/(loss) before tax	43	63	58	(19)	145

Contacts : Sophie Ricord sophie.ricord@hsbc.fr +33 (0) 6 89 10 17 62
Raphaële-Marie Hirsch raphaele.marie.hirsch@hsbc.fr +33 (0) 1 58 13 06 56

HSBC France

HSBC France is a subsidiary of the HSBC Group. The head office of HSBC France is located in Paris. HSBC France includes, in addition to its banking activities in France, the activities of 11 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain, Sweden and United Kingdom). HSBC France has a strategy aligned to the HSBC Group, which seeks to provide clients with high value-added products and services as they look to operate within France, Continental Europe and beyond.

HSBC Holdings plc

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide across 64 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,923bn at 30 June 2020, HSBC is one of the world's largest banking and financial services organisations.