HSBC

Press Release

14 June 2023

HSBC SFH (FRANCE)

UPDATE ON THE SALE OF HSBC CONTINENTAL EUROPE'S RETAIL BANKING BUSINESS IN FRANCE

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HSBC SFH (France) ('HSFH') notes that HSBC Continental Europe ('HBCE') has today signed a further Memorandum of Understanding regarding certain potential changes to the terms of the sale of its French retail banking business. The potential changes do not impact the planned sale of HSFH under the terms of the original transaction.

HBCE confirmed today in its regulatory notice that the following potential changes are designed to enable the Purchaser to satisfy its future capital requirements (following significant interest rate rises since the sale was first agreed in 2021) and to obtain regulatory approval for the transaction:

- the indirect shareholder of My Money Group will contribute €225m of capital to My Money Group by closing;
- HBCE will retain a portfolio of €7.0bn of home loans, which was originally part of the sale (and in respect of which HBCE may consider on-sale opportunities at a suitable time), with HBCE including cash, equivalent to the carrying value of those loans in the transaction perimeter;
- the net asset value of the business to be transferred at closing will be set by reference to the prevailing mortgage interest rate and the 10-year mid-swap rate at the closing date of the transaction (the 'Prevailing Rates') capped at €1.720bn;
- depending on the Prevailing Rates, HBCE will receive a profit participation interest of 1.25 times the amount invested (carrying PIK interest of 8% per annum on the outstanding balance) in exchange for investing capital into My Money Group's top holding company– the maximum amount invested would be €407m, and the aggregate of the actual net asset value delivered at closing and this investment would not exceed €1.768bn;
- a long term agreement for HBCE to license the Crédit Commercial de France ('CCF') brand to the Purchaser;
- enhancements for HBCE in respect of insurance and asset management distribution agreements with the Purchaser; and
- operational and servicing arrangements necessary to implement the above arrangements.

The changes do not alter the underlying rationale for the transaction, which will allow HBCE to focus on its international wholesale business model. There is no immediate change to the IFRS accounting treatment of the HBCE's French retail business – there will be an information and consultation process with respective works councils and the transaction remains subject to regulatory approvals. The parties are aiming to close the transaction on 1 January 2024.

The financial impact of the transaction for HBCE is now expected to be:

- A cumulative pre-tax loss on sale up to €2.2bn, including an estimated up to €2.0bn, expected to be recognised during 2H23. The final pre-tax loss on sale will be determined at closing, by reference to Prevailing Rates at the time and the value of the profit participation interest (if relevant).
- An estimated reduction of €2.5bn in RWAs.
- Ongoing costs associated with the retention of €7.0bn of home loans, net of income on distribution agreements and brand licensing, for an estimated after-tax loss of €0.1bn for 2024.
- CET1 broadly unchanged from 31DEC22 (15.3%) upon reclassification of the business as held for sale under IFRS as the reversal of the previously recognised loss had not been verified for inclusion in the CET1 at 31MAR23.

On 18 June 2021, HBCE announced (the '2021 Announcement') that it had signed a Memorandum of Understanding with Promontoria MMB SAS ('My Money Group') and its subsidiary Banque des Caraïbes SA (the 'Purchaser', and together with My Money Group, the 'Purchaser Group') regarding the potential sale of HBCE's retail banking business in France (the 'Business') (the 'Transaction'). The parties subsequently entered into a binding framework agreement ('Framework Agreement') on 25 November 2021. My Money Group and the Purchaser are under the control, directly or indirectly, of funds and accounts managed or advised by Cerberus Capital Management L.P.

On 14 April 2023, HBCE announced that following significant interest rate rises since the sale terms were agreed in 2021, completion of the Transaction was less certain and that the Business was no longer being classified as held for sale.

HSFH notes that the parties have today signed a further Memorandum of Understanding ('MoU') regarding certain potential changes to the terms of the Transaction (the 'Potential Changes') which are designed to enable the Purchaser to satisfy its future capital requirements and to obtain regulatory approval for the Transaction. The Potential Changes do not alter the underlying rationale for the Transaction as set out in the 2021 Announcement.

HBCE confirmed today in its regulatory notice that the Potential Changes involve changes to the Transaction perimeter and amendments to certain other agreements as summarised below:

- the indirect shareholder of My Money Group contributing €225m of capital to My Money Group by the closing date of the Transaction ('Closing');
- the retention of a portfolio of €7.0bn of home and certain other loans by HBCE, that was originally planned to transfer as part of the sale, which will be serviced by the Purchaser post-Closing and in respect of which HBCE may consider on-sale opportunities at a suitable time;
- HBCE including a cash amount equivalent to the carrying value of the retained portfolio of loans in the Transaction perimeter;
- the net asset value of the Business agreed to be transferred at Closing will be set by reference to the prevailing mortgage interest rate (the 'Origination Rate') and the 10-year mid swap rate (the 'Swap Rate') at the closing date of the Transaction (together, the 'Prevailing Rates') capped at €1.720bn;
- depending on the Prevailing Rates, HBCE would receive a profit participation interest in exchange for investing capital into the top holding company of My Money Group– key features of the profit participation arrangement include:
    - the maximum consideration payable for the profit participation interest would be €407m (and the aggregate of the actual net asset value delivered at Closing and the investment made in the profit participation interest would not exceed €1.768bn);

    - the nominal value of the profit participation interest would be 1.25 times the amount invested by HBCE (so, illustratively, a maximum investment of €407m would represent a profit participation value of €509m);
    - the profit participation interest will attract payment-in-kind (‘PIK’) interest of 8% per annum on the outstanding balance;
    - payment of the profit participation interest would be payable out of distributions from, or proceeds from the sale of My Money Group (‘Available Proceeds’);
    - the profit participation interest would be paid out of Available Proceeds in priority to distributions to the Cerberus funds in respect of their existing indirect investment in My Money Group;
- the retention of the Crédit Commercial de France (‘CCF’) brand by HBCE, and the entry into a long term agreement for HBCE to license the CCF brand to the Purchaser;
- certain enhancements to the insurance distribution agreement between HSBC Assurances Vie (France) and the Purchaser;
- certain enhancements to the asset management distribution agreement between HSBC Global Asset Management (France) and the Purchaser; and
- operational and servicing arrangements necessary to implement the above arrangements.

The signing of the MOU has been approved by the boards of directors of HBCE, My Money Group and the Purchaser.

Financial terms and impact of the Transaction (taking into account the Potential Changes)

The terms of the Transaction announced in 2021 contemplate HBCE transferring the Business to the Purchaser with a net asset value of c.€ 1.65bn on Closing, subject to adjustment in certain circumstances, in exchange for consideration of €1. Taking into account the Potential Changes, the net asset value to be transferred in connection with the Transaction is expected to be substantially unchanged from the terms of the Transaction announced in 2021.

There is no immediate change to the accounting treatment of the French retail business under IFRS – there will be an information and consultation process with respective works councils and the Transaction remains subject to regulatory approvals. Temporary deferred tax liabilities may arise as a result of differences in accounting treatment between IFRS and HBCE accounts prepared on a French GAAP basis.

Taking into account the Potential Changes, the financial impacts of the Transaction on HBCE (on a consolidated basis) are currently expected to be[1]:

- the recognition of a pre-tax loss on sale estimated at up to €2.0bn upon reclassification of the Business as held for sale, expected during 2H23. The final pre-tax loss on sale will be determined at Closing, by reference to the Prevailing Rates at the time, and the value of the profit participation interest (if relevant). The cumulative Transaction loss across 2021-2024 is estimated at €2.2bn based on observed rates, including transaction costs and write-offs.
- An estimated reduction of €2.5bn in RWAs[2].
- Ongoing costs associated with the retention of €7.0bn of home and certain other loans, net of income on distribution agreements and brand licensing for an estimated after-tax loss of €0.1bn in 2024 based on expected funding rates.

[1] Based on 31 March 2023 HBCE consolidated balance sheet and capital position.
[2] Estimated based on the 31 March 2023 position of the business.

- CET1 broadly unchanged from 31DEC22 (15.3%) upon reclassification of the business as held for sale under IFRS as the reversal of the previously recognised loss had not been verified for inclusion in the CET1 at 31MAR23.

The table below sets out the expected estimated position, assuming a Swap Rate of 3.0 % and an Origination Rate of 4.0%, in each case at Closing, and a nil initial value ascribed to the profit participation interest. To the extent that the expected Swap Rate and Origination Rate at Closing vary and a value is ascribed to the profit participation interest, the estimated transferring net asset value and therefore pre-tax loss may reduce.

	Estimate as at 31 May 2023	**Expected timing of P&L impact**
Estimated transferring net asset value	€1.8bn	2H23
Purchase price expected to be payable on Closing	€1	
Estimated resulting pre-tax loss	**(€1.8bn)**	
Other estimated P&L transaction impacts (including transaction costs, write-offs and recycling reserves)	(€0.4bn)	2021-2024
Estimated total pre-tax loss on sale for HBCE[3]	**(€2.2bn)**	
Of which: estimated to be recognised upon reclassification as held for sale	**(€2.0bn)**	**2H23**

Given the financial terms of the Transaction, it is not expected that the Transaction will result in any net proceeds of sale for HBCE.

Indicative timetable, next steps and conditions

The MoU records the status of the negotiations between the parties in respect of the Potential Changes and sets out the information and consultation process of HBCE and the Purchaser with their respective works councils, which will commence shortly. If, following the outcome of these processes, the parties were to decide to implement the Potential Changes, they would enter into the requisite binding agreements.

The Transaction remains subject to regulatory approvals. The parties are aiming to close the Transaction on 1 January 2024. The long stop date for the Transaction is 31 May 2024, extendable to 29 November 2024 in certain circumstances.

Notes to Editors

HSBC SFH (France)
HSBC SFH (France) is a funding vehicle used by HSBC Continental Europe for the issuance of covered bonds backed by mortgage loans issued by HSBC Continental Europe.

HSBC Continental Europe
Headquartered in Paris, HSBC Continental Europe is an indirectly held subsidiary of HSBC Holdings plc. HSBC Continental Europe includes, in addition to its banking, insurance and asset management

[3] Inclusive of transferring business net asset value and profit participation interest at nil fair value.

activities based in France, the business activities of 10 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden) and two subsidiaries (Germany and Malta) acquired in November 2022. HSBC Continental Europe's mission is to serve both customers in Continental Europe for their needs worldwide and customers in other Group countries for their needs in Continental Europe.

HSBC Holdings plc
HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 62 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,967bn at 31 December 2022, HSBC is one of the world's largest banking and financial services organisations.

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