

22 February 2022

HSBC CONTINENTAL EUROPE¹ 2021 ANNUAL AND SECOND HALF RESULTS

At its 22 February 2022 meeting, HSBC Continental Europe's Board of Directors reviewed the second half year results and approved the bank's consolidated financial statements for 2021.

HSBC Continental Europe's performance in 2021 reflected a return to profitability, supported by the benefits of the economic recovery for our clients, and the early impact of our business transformation. Growth in our Global Banking and Commercial Banking businesses demonstrated the strength of our global franchise and reinforced our ambition to become the leading international wholesale bank in Continental Europe. In support of this strategy, HSBC Continental Europe announced the signing of a Framework Agreement for the planned sale of its retail banking activities in France in November 2021.

2021 annual results

Reported consolidated profit before tax was €285m, up from a loss of €945m in 2020 that included exceptional cost items of €758m and an unfavourable PVIF (Present Value of In Force long-term insurance business²) movement of €123m, compared with a favourable movement of €187m in 2021.

Reported net operating income before change in expected credit losses and other credit impairment charges was €2,363m, up from €2,121m in 2020. The increase was driven by a favourable PVIF movement in Life Insurance (€187m, compared with an unfavourable movement of €123m in 2020) and strong growth in revenues in Global Banking, as well as increased revenues in Commercial Banking. The increase was partly offset by losses related to the repositioning of Markets and Securities Services. Asset Management and Life Insurance benefitted from favourable market conditions and robust client activity, while the overall performance of Wealth and Personal Banking continued to be impacted by persistently low interest rates.

Reported change in expected credit losses and other credit impairment charges was a charge of €33m, compared with a charge of €289m in 2020. The decrease in the cost of risk reflected the improvement in the current economic environment and the forward outlook.

Reported operating expenses were €2,046m, down from €2,777m in 2020. The decrease was due to the non-recurrence of prior year exceptional items (the impairment of tangible and intangible assets for €500m and restructuring costs for €258m), lower depreciation and amortisation and lower staff costs. The decrease was partly offset by transformation related costs and contributions to the Single Resolution Fund which increased by €38m compared with the prior year.

Reported profit attributable to shareholders of the parent company was €269m in 2021, compared with a loss of €1,022m in 2020.

¹ HSBC Continental Europe includes, in addition to its banking activities in France, the activities of 10 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden)

² See appendix

The consolidated balance sheet of HSBC Continental Europe showed total assets of €223bn at 31 December 2021, compared to €237bn at 31 December 2020.

At 31 December 2021, HSBC Continental Europe reported a liquidity coverage ratio (LCR)³ of 145% and a net stable funding ratio (NSFR)⁴ of 130%. The bank's fully loaded common equity tier 1 (CET1) ratio was 12.0% and the fully loaded total capital ratio was 16.5%. The fully loaded leverage ratio was 4.2%. The solvency ratio of the Life Insurance company was 292%⁵.

2021 second half results

Reported consolidated profit before tax was €98m, up from a loss of €295m in the second half of 2020.

Reported net operating income before change in expected credit losses and other credit impairment charges was €1,067m, compared with €1,191m in the second half of 2020. The decrease was driven by losses related to the repositioning of Markets and Securities Services.

Reported change in expected credit losses and other credit impairment charges was a charge of €34m, compared with a charge of €60m in the second half of 2020. The improvement was in Commercial Banking and in Wealth and Personal Banking.

Reported operating expenses were €935m, compared with €1,426m in the second half of 2020. The decrease was due to the non-recurrence of restructuring costs and the impairment of tangible assets accounted for in the second half of 2020, as well as the impact of the restructuring plans in 2021.

Planned sale of the retail banking business in France

On 25 November 2021, HSBC Continental Europe signed a Framework Agreement with Promontoria MMB SAS ('My Money Group') and its subsidiary Banque des Caraïbes SA regarding the planned sale of HSBC Continental Europe's retail banking business in France. This followed the signing of a Memorandum of Understanding on 18 June 2021 and the conclusion of the information and consultation processes of the parties with their respective works councils.

The planned sale, which is subject to regulatory approval and the satisfaction of relevant conditions, includes: HSBC Continental Europe's French retail banking business; the Crédit Commercial de France ('CCF') brand; and HSBC Continental Europe's 100% ownership interest in HSBC SFH (France) and its 3% ownership interest in Crédit Logement.

In parallel, several other agreements have been entered into which aim to ensure continuity of service for HSBC Continental Europe's retail banking customers who hold asset management products with HSBC Global Asset Management (France) and HSBC REIM (France), and protection and/or life-wrapped insurance products with HSBC Assurances Vie (France).

The terms of the planned sale contemplate HSBC Continental Europe transferring the business to the purchaser with a net asset value of c. €1.65bn, subject to adjustment (upwards or downwards) in certain circumstances, for a consideration of €1. The planned sale would generate an estimated pre-tax loss for HSBC Continental Europe of €2bn. The vast majority of the estimated loss is currently anticipated to be recognised in 2022 in HSBC Continental Europe's consolidated financial statements, prepared on an IFRS basis. A loss of €1.8bn was recognised in 2021 in HSBC Continental Europe's parent company financial statements, prepared on a French GAAP basis.

³ Computed in respect of the EU Delegated act

⁴ Computed in respect of CRR II (Regulation EU 2019/876)

⁵ Unaudited

Customer relief programmes

HSBC Continental Europe continued to support its clients with €4.0bn of balances related to lending under customer relief programmes at 31 December 2021, including €3.4bn of loans under the French Government guarantee scheme.

2021 adjusted results⁶ per business line

HSBC Continental Europe changed its segmental reporting in 2021 by splitting the business line 'Global Banking and Markets' into three business lines: 'Markets and Securities Services', 'Global Banking' and 'Global Banking and Markets Other'. Financials for year 2020 were re-presented accordingly with no impact on the consolidated financial results.

Global Banking

The adjusted profit before tax was €256m, up from €75m in 2020. The increase was driven by higher revenues across all product categories due to business growth, including increased volumes in Euroclearing and Capital Markets and Advisory, as well as by a net release of provisions for expected credit losses compared to charges in 2020.

Total customer loan balances of €16.9bn at 31 December 2021 were up by €3.3bn compared to 2020, driven by increased lending to corporate clients in the second half of 2021.

HSBC delivered a particularly strong performance in Equity Capital Markets (ECM) in 2021, ranking #2 Global Coordinator in French ECM⁷. The business also had significant success in Spain, where it was the #1 Spanish IPO Bookrunner⁷, as well as in Italy, Belgium and Sweden.

Markets and Securities Services

The adjusted loss before tax was €116m, compared to a loss of €138m in 2020, driven by higher revenues in Equities which benefitted from a broader product offering and a larger volume of ECM mandates, Securities Services and Foreign Exchange, partly offset by lower revenues in Global Debt Markets and Securities Financing and an increase in contributions to the Single Resolution Fund.

HSBC Continental Europe is the Group's platform for euro-denominated rates products and plays a key role in supporting the needs of corporate and institutional clients in Europe and globally.

Global Banking and Markets Other

Global Banking and Markets Other comprises activities that are outside of the perimeter of Markets and Securities Services and Global Banking, of which the main activity is Principal Investments which brings together HSBC's core principal investing activities. The adjusted profit before tax was €8m, compared to a loss of €10m in 2020, driven by the improved market environment.

Commercial Banking

The adjusted profit before tax was €222m, up from €63m in 2020, driven by reductions in the cost of risk and growth in revenues.

At 31 December 2021, customer loan balances were €17.8bn at 31 December 2021 and deposit balances were up by 6% to €28.6bn, related to business growth in Global Liquidity and Cash Management activities.

⁶ The adjusted results are alternative performance metrics where the impacts of 'significant items' and year-on-year foreign currency translation differences are removed (see appendix)

⁷ Sources: Dealogic, Full Deal Value

HSBC Continental Europe is a key partner for companies seeking to set up abroad and for foreign companies seeking to expand in Continental Europe. Revenues generated by HSBC Continental European customers in other HSBC Group entities represented 40% of the revenues generated by the same companies in Continental Europe.

Wealth and Personal Banking

The adjusted profit before tax was €198m, up from a loss of €280m in 2020, mainly due to a favourable PVIF movement of €187m (compared to an unfavourable movement of €123m in 2020), the non-recurrence of the prior-year impairment of tangible assets, and a net release of provisions for expected credit losses (compared to incremental charges in 2020). Asset Management performance was positive due to favourable market conditions and robust client activity, while revenues from retail activities continued to be impacted by persistent low interest rates.

Customer loan balances of €24.6bn were broadly stable compared to 2020. Client assets under management were up by 4% to €62bn over 2021, with deposit balances up by 6% to €22.4bn and higher wealth assets under management supported by favourable market impacts.

Life insurance liabilities managed by the insurance company were up by 1% to €23.5bn (from €23.2bn in 2020), with growth in unit-linked contracts by €1.1bn to €6.2bn supported by favourable market impacts and positive net new money. The share of the unit-linked business in the gross written premiums was 44% in 2021, compared to 39% for the market⁸ and 39% last year.

Corporate Centre

The Corporate Centre comprises operating income and expense items that are not allocated to the global businesses. The adjusted loss before tax was €37m, compared to a loss of €41m in 2020.

⁸ Source: *France Assureurs* – French Insurance Federation

Appendix

The accounts audit procedures are ongoing.

Summary consolidated income statement

	Half year to		Year		
	€m	31-Dec-2021	31-Dec-2020	2021	2020
Net interest income		507	519	987	1,053
Net fee income		458	421	915	858
Net income/(expense) from financial instruments held for trading or managed on a fair value basis		(9)	10	81	72
Other operating income/(expense)		111	241	380	138
Net operating income before change in expected credit losses and other credit impairment charges		1,067	1,191	2,363	2,121
Change in expected credit losses and other credit impairment charges		(34)	(60)	(33)	(289)
Total operating expenses		(935)	(1,426)	(2,046)	(2,777)
Share of profit in associates and joint ventures		—	—	1	—
Profit/(loss) before tax		98	(295)	285	(945)
Tax expense		17	(230)	(17)	(80)
Profit/(loss) for the period		115	(525)	268	(1,025)
Profit/(loss) attributable to shareholders of the parent company		116	(523)	269	(1,022)
Profit/(loss) attributable to non-controlling interests		(1)	(2)	(1)	(3)

Building an integrated pan-European wholesale platform

As part of our transformation, and subject to regulatory approval and consultations with works councils, HSBC Germany is planned to become a branch of HSBC Continental Europe. This will allow us to improve our service to our wholesale clients by simplifying our corporate structure and moving to common systems and processes. In addition, HSBC Continental Europe intends to seek regulatory approval for HSBC Malta and HSBC Private Bank Luxembourg to become subsidiaries in line with the requirements of the obligation arising under Article 21b of Directive 2013/36/EU of 26 June 2013. This directive requires non-EU headquartered banks with significant EU operations to establish an intermediate parent undertaking in the EU by 30 December 2023.

PVIF (Present value of in force long-term insurance business)

HSBC Continental Europe, 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.

In 2021, the PVIF movement was favourable by €187m.

Post-balance sheet events

On 22 February 2022, the Board of Directors convened an Extra-Ordinary General Meeting on 11 March 2022 to propose a share capital increase of €700m.

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	Year 2021	Year 2020
Reported revenue		2,363	2,121
Significant revenue items		155	(68)
Adjusted revenue		2,518	2,053
Reported operating expenses		(2,046)	(2,777)
Significant cost items		91	682
– Impairment of goodwill, intangibles and tangibles		2	372
– Restructuring cost and other significant items		89	310
Adjusted operating expenses		(1,955)	(2,095)

Adjusted results by business line

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	Global Banking and Markets Other	Corporate Centre	Total
	€m						
	Year 2021						
Net operating income before change in expected credit losses and other credit impairment charges	938	725	260	503	70	22	2,518
Change in expected credit losses and other credit impairment charges	20	(68)	—	13	2	—	(33)
Total operating expenses	(760)	(435)	(376)	(260)	(64)	(60)	(1,955)
Share of profit in associates and joint ventures	—	—	—	—	—	1	1
Adjusted profit/(loss) before tax	198	222	(116)	256	8	(37)	531
	Year 2020						
Net operating income before change in expected credit losses and other credit impairment charges	622	700	208	393	94	36	2,053
Change in expected credit losses and other credit impairment charges	(22)	(190)	—	(77)	—	—	(289)
Total operating expenses	(880)	(447)	(346)	(241)	(104)	(77)	(2,095)
Share of profit in associates and joint ventures	—	—	—	—	—	—	—
Adjusted profit/(loss) before tax	(280)	63	(138)	75	(10)	(41)	(331)

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HSBC Continental Europe

Headquartered in Paris, HSBC Continental Europe is a subsidiary of HSBC Holdings plc. HSBC Continental Europe includes, in addition to its banking activities in France, the activities of 10 European branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden). HSBC Continental Europe's mission is to serve 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 HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US\$2,958bn at 31 December 2021, HSBC is one of the world's largest banking and financial services organisations.