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SALE OF RETAIL BANKING BUSINESS IN FRANCE

HSBC Continental Europe ('HBCE') has today signed a Memorandum of Understanding ('MOU') with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB'), regarding the potential sale of HBCE's retail banking business in France. My Money Group, MMB and the Purchaser are under the control, directly or indirectly, of funds and accounts managed or advised by Cerberus Capital Management L.P.

Commenting on the Potential Transaction, Jean Beunardeau, HBCE CEO said: *"This potential transaction is an important step towards achieving our strategic goal of being a leading wholesale bank in Continental Europe for Corporate and Investment Banking, Markets and Private Banking, anchored in Paris, connecting our customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world. As importantly, this potential transaction would allow HSBC's French retail banking business to be sold to an experienced investor for whom retail banking activities will be at the heart of the strategy and therefore more able to support its development over the long term in France."*

Commenting on the Potential Transaction, Noel Quinn, Group Chief Executive, said:

"The signing of an MOU for the potential sale of our French retail banking business represents a significant step in progressing the actions we announced during our strategic update earlier this year. It will enable us to dramatically simplify our business in Continental Europe and allow us to accelerate the transformation of our European wholesale banking franchise. We are committed to remaining as a leading international wholesale bank in Continental Europe, capitalising on our global network and serving our multinational customers both inbound and outbound."

The potential sale includes: HBCE's French retail banking business; the Crédit Commercial de France ('CCF') brand; and, subject to the satisfaction of relevant conditions, HBCE's 100% ownership interest in HSBC SFH (France) ('HSFH') and its 3% ownership interest in Crédit Logement (together, the 'Business') (the 'Potential Transaction'). The Potential Transaction is structured such that the parties may proceed to Closing even if the relevant conditions to transfer HSFH and/or the 3% ownership interest in Crédit Logement are not satisfied.

The Business consists of a network of 244 retail branches, approximately 800,000 customers, EUR 21.5bn in customer loans and EUR 18.9bn in deposits balances associated with HBCE's retail banking activities in France, as well as certain other assets and liabilities. If the Potential Transaction were to proceed, the Purchaser intends to operate the Business under the CCF brand in mainland France.

It is anticipated that approximately 3,900 employees would transfer with the Business in accordance with relevant legislation.

HBCE through its subsidiaries HSBC Assurances Vie (France), HSBC Asset Management (France) and HSBC REIM (France) would continue its existing insurance and asset management activities, and the Potential Transaction would therefore involve such entities respectively entering into distribution agreements with the Purchaser for insurance and asset management products.

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

The MOU records the status of the negotiations between the parties and sets out the information and consultation process of HBCE and the Purchaser with their respective works councils, which will commence shortly. It also contains exclusivity commitments entered into by the parties.

Financial terms

The terms of the Potential Transaction contemplate HBCE transferring the Business to the Purchaser with a net asset value of c. EUR 1.6bn, subject to adjustment (upwards or downwards) in certain circumstances, for a consideration of EUR1.

Any required increase to the net asset value of the Business to achieve the net asset value of EUR 1.6bn would be satisfied by the inclusion of additional cash within the scope of the Business transferred. In the event that the net asset value exceeds this target amount, the consideration would not be adjusted.

Under the proposed terms of the Potential Transaction, HBCE and the Purchaser have agreed to take certain steps to manage the net asset position of the Business to be delivered at closing of the Potential Transaction ('Closing'). This includes HBCE taking steps for HSFH (or a similar vehicle) to issue covered bonds (up to EUR 2.0bn of which may be self-financed by HBCE). The net asset position can be further reduced via arrangements agreed with the Purchaser including further secured funding to the Business, and/or temporary retention of certain home loans by HBCE for a period of three months If the net asset value of the transferred Business at Closing (calculated on the basis that certain actions have been taken by HBCE to manage the net asset position) is expected to exceed the target, HBCE would have the right to terminate the Potential Transaction (and therefore would be able to avoid an increased loss on sale).

Financial impact of the Potential Transaction

The sale would generate an estimated pre-tax loss (calculated on an IFRS basis) for HBCE of c. EUR 1.9bn. There would be no immediate tax benefit recognised in respect of the sale loss nor impairment. The vast majority of the estimated sales loss and impairment is expected to be recognised upon the classification of the Business as held for sale for accounting purposes, currently anticipated to be in 2022, with any remaining elements recognised by completion.

It is estimated that the sale of the Business would reduce credit RWAs at an HBCE consolidated level under ECB rules by up to EUR 5.8bn based on 31 December 2020 figures. HBCE has a consolidated common equity tier 1 capital ratio of 12.6% as at 31 December 2020. The pre-tax loss on sale would be partially offset by the reduction in credit RWAs at closing, and would be expected to lead to an estimated decrease in HBCE's common equity tier 1 capital ratio of 313 basis points (based on HBCE's RWAs at 31 December 2020).

As a subsidiary of the HSBC Group, HBCE benefits from the support of its parent company HSBC Bank plc, which stands ready to inject capital into HBCE as required to support its strategy and meet regulatory requirements at all times.

The HSBC Group has a strong capital position, with a common equity tier 1 capital ratio of 15.9% as at 31 December 2020. The pre-tax loss on sale is expected to lead to an estimated decrease in the

HSBC consolidated common equity tier 1 capital ratio of 15 basis points (based on HSBC Group RWAs at 31 December 2020).

A reduction in the HBCE tangible net asset value of c. EUR 1.9bn would be expected upon Closing (based on the current estimate of the financial impact of the Potential Transaction). None of the current unsecured or subordinated debt issued by HBCE will transfer to the Purchaser as part of the Potential Transaction.

The financial impact of the Potential Transaction set out above is calculated on the assumption that HSFH and the 3% ownership interest in Crédit Logement are within the scope of the Potential Transaction at Closing. If HSFH does not transfer at Closing, this would result in an initial lower reduction in RWAs of HBCE.

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

On Closing, the profit and loss and the assets and liabilities of the Business will no longer be consolidated into the consolidated financial statements of HBCE and HSFH, if the required consent for its transfer is obtained, will cease to be a subsidiary of HBCE.

HSBC does not anticipate that the Potential Transaction will lead to a change in the current issuer credit ratings of HBCE.

Indicative timetable, next steps and conditions

As noted above, the MoU sets out the information and consultation process by the parties of their respective employees' works councils and contains exclusivity commitments by both parties.

The information and consultation processes will commence shortly. If, following the outcome of these processes, the parties were to decide to proceed with the Potential Transaction, a governing transaction agreement would be entered into between HBCE, the Purchaser and My Money Group setting out the further terms for implementation of the Potential Transaction.

The Potential Transaction would be subject to clearance from relevant financial, governmental and regulatory approvals. Approvals would also be required in connection with the transfer of the interests in HSFH and Crédit Logement; however as noted above, the Potential Transaction would proceed even if these approvals were not obtained.

The Potential Transaction would be expected to close in the first half of 2023.

Further information

As at 31 December 2020, the value of the gross assets of the Business to be sold was EUR 23.7bn, including EUR 21.5bn of customer loan balances. The Business also has customer deposit balances of EUR 18.9bn. During the financial years ended 31 December 2019, and 2020, respectively, the Business under HBCE ownership generated EUR 410m and EUR 406m of revenues, incurred EUR 578m and EUR 623m of operating costs, and recognised a EUR 1m net cost of risk reversal and EUR 19m net cost of risk charge. The loss before tax for the Business for the financial years ended 31 December 2019 and 31 December 2020 was EUR 167m and EUR 236m respectively. No loss after tax was recorded for the Business, as tax is applied at the entity level.

HSBC Global Banking and Lazard are acting as financial advisors to HSBC in connection with the Potential Transaction.

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Notes to editors

1. 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$2,984bn at 31 December 2020, HSBC is one of the world's largest banking and financial services organisations.[1]

2. HSBC Continental Europe
HSBC Continental Europe is a subsidiary of HSBC Holdings plc. HSBC Continental Europe is headquartered in Paris. HSBC Continental Europe includes, in addition to its banking activities in France, the activities of 10 European branches (Belgium, Spain, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Czech Republic 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**.**

3. 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.

4. Crédit Logement
Crédit Logement operates as a provider of mortgage loan guarantees in the French market.

5. Banque des Caraïbes
Banque des Caraïbes ('**BdC'**) is a universal bank regulated by the ACPR, and is currently operating in the French Caribbean under the My Money Group umbrella. BdC is ultimately controlled by funds and accounts managed or advised by Cerberus Capital Management L.P. The principal business of the Purchaser relates to retail and commercial banking.

6. Promontoria MMB
Promontoria MMB is a financial holding company of My Money Group and is regulated by the ACPR. Its owns majority shares notably in Banque des Caraïbes and My Money Bank.

7. My Money Bank
My Money Bank is a bank regulated by the ACPR and is currently operating in mainland France under My Money Group umbrella. MMB is ultimately controlled by funds and accounts managed or advised by Cerberus Capital Management L.P. The principal business of My Money Bank relates to debt consolidation and commercial real estate.

8. Lazard & Co., Limited

Lazard & Co., Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and Lazard Frères SAS (together "Lazard") are acting exclusively for HSBC Continental Europe and for no one else in connection with the Potential Transaction and will not be responsible to anyone other than HSBC Continental Europe for providing the protections afforded to their clients or for providing advice in connection with the Potential Transaction. Neither Lazard nor any of their respective affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Lazard in connection with this document, any statement contained herein, the Potential Transaction or otherwise.

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group. Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'estimates', and 'potential', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Continental Europe makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement. Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statements.

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