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HSBC Germany sees growth in all divisions – impairments impact pre-tax profit

- Operating revenues up roughly 7% in the first half of 2019
- Lending business grows by nearly 5%
- Pre-tax profit for the first half of the year down to €47.2m due to unscheduled high individual impairments and extraordinary expenses

HSBC Trinkaus & Burkhardt (“HSBC Germany”) grew in the first half of 2019 but is feeling the stronger headwind in the German banking market. Pre-tax profit fell to €47.2m following €83.6m in the first half of 2018. Impairments had a particularly noticeable negative impact on pre-tax profit. Despite the difficult conditions, HSBC Germany succeeded in raising its operating revenues by 6.6% in the first half of 2019 to €385.2m, with all divisions contributing to growth. Loans and advances to customers rose by 4.7% to €11.3bn.

The Bank expects improved earnings in the second half of 2019. However, the improvement is unlikely to be enough to ensure pre-tax profit on par with the previous year. Alongside economic development and the associated increased risk of surprise loan defaults, geopolitical risks – including Brexit – could have a negative impact on interest, foreign exchange and equity markets, thereby weighing down earnings.

“We raised income further throughout the Bank, which shows that our business model is proving its worth even in a difficult market environment,” says Carola von Schmettow, CEO of HSBC Germany. “Because the headwind from interest rates and the economy is growing stronger, we will be adjusting our costs to the weaker than planned revenue growth.”

Net interest income and net fee income both increased in the first half of the year. In the traditionally strong commission business, net income climbed to €221.7m (previous year: €210.8m). Net interest income, which continues to feel the effect of the low interest rate, rose to €113.5m (previous year: €103.0m). However, net trading income fell slightly by €1.9m to €40.7m.

Following the reversal of net loan impairment provisions through profit or loss in the previous year, high individual impairments pushed net loan impairment provision requirements up by €31.8m year on year to €29.2m. Without these impairments, HSBC Germany would have reported pre-tax profit nearly on par with the previous year.

Administrative expenses rose by €29.7m, from €290.3m to €320.0m. Staff expenses increased by €28.1m year on year totalling €196.9m due to an extraordinary expenses in connection with an efficiency programme, followed by an increase in the number of employees to around 3,100 (30.06.2018: 2,978). The Bank will continue to improve its processes and structures and cut costs.

Among the individual divisions, Commercial Banking (CMB), the business with mid-market enterprises, generated the highest growth in income in percentage terms, with income up more than 12% to €92.8m in the first half of the year. At €62.9m, net interest income in particular was up significantly compared to the previous year (€53.1m). Unlike in 2018, the economic environment led to a significant increase in net loan impairment provision requirements in the reporting period. Despite the substantial rise in income, pre-tax profit in CMB fell to €7.1m (previous year: €32.1m) due to the higher allocations to net loan impairment provisions.

In the Global Banking & Markets segment (GB&M), income rose by €15.1m, or more than 7%, to €223.8m. Net fee income increased by nearly €10m to €146.1m (previous year: €136.7m). After €38.7m in the previous year, net fee income from transactions involving securities and financial instruments climbed to €55.3m. The rise in fees related to the arrangement of business involving fixed income products and alternative investments made a particularly noticeable contribution to this development. The securities portfolio business also developed successfully. At

€61.5m, net income in this area was also significantly higher year on year (previous year: €54.1m). HSBC Securities Services achieved very strong growth in the first half of 2019, with overall volume managed in the custody business up by just under €70bn to €645bn in the first six months of the current year. In fund administration, volume has increased by nearly 14.5% to €240.6bn since the end of 2018. At €31m, the number of transactions in the securities settlement business was on par with the previous year.

However, the higher income in GB&M was offset by higher administrative expenses. The rise in costs resulted from higher staff expenses and the continued investments as part of the integration of securities processing for Commerzbank.

The Private Banking & Asset Management division increased its operating revenues slightly to €55.2m (previous year: €54.4m). A special focus was placed on expanding the transaction-related business involving private clients and special funds.

HSBC Germany's total assets stood at €28.1bn as at mid-2019 following €24.3bn as at 31 December 2018, corresponding to a rise of €3.8bn, or 15.8%. The Tier 1 capital ratio stood at 12.2% (31 December 2018: 10.7%), with a regulatory capital ratio of 14.5% (31 December 2018: 13.4%).

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About HSBC Germany

HSBC Germany is part of the HSBC Group, one of the world's leading international banks, with a network across 65 countries and territories worldwide which account for more than 90% of global economic output. HSBC Germany's clients are companies, institutional clients, the public sector and high net worth private clients. The bank stands for internationality, comprehensive advisory expertise, major placement power, first-class infrastructure and capital strength. With its AA- (Rating Watch Negative) rating, it has the highest Fitch rating of all private commercial banks in Germany. HSBC Germany, which operates as HSBC Trinkaus & Burkhardt AG, was founded in 1785 and has more than 3,000 employees in Düsseldorf and at a further 11 locations.

HSBC Trinkaus & Burkhardt Group

Consolidated figures according to International Financial Reporting Standards (IFRS)

Balance sheet figures in €m	30.06.2019	31.12.2018	Change in %
Total assets	28,114.8	24,284.1	15.8
Shareholders' equity	2,429.0	2,273.1	6.9
Loans and advances to customers	11,254.5	10,749.8	4.7
Trading assets	2,399.0	2,876.7	- 16.6
Positive market values of derivative financial instruments	1,248.8	1,265.6	- 1.3
Customer accounts	18,288.6	14,861.4	23.1
Trading liabilities	1,820.7	1,825.9	- 0.3
Negative market values of derivative financial instruments	1,101.2	978.7	12.5

Income statement in €m	30.06.2019	30.06.2018	Change in %
Net fee income	221.7	210.8	5.2
Net interest income	113.5	103.0	10.2
Net loan impairment provision	29.2	- 2.6	>100
Net trading income	40.7	42.6	- 4.5
Administrative expenses	320.0	290.3	10.2
Pre-tax profit	47.2	83.6	- 43.5
Net profit	30.9	55.0	- 43.8

Ratios	30.06.2019	31.12.2018	Change in percentage points
Return on equity before tax in % (projected for the full year)	4.2	7.6	- 3.4
Net fee income in % of operating revenues	57.6	58.6	- 1.0
Tier 1 capital ratio in %	12.2	10.7	1.5