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HSBC Germany increased revenues in all business divisions

- Net fee income and net interest income each rise more than 5%
- Pre-tax profit falls to €145m due to high individual impairments
- Efficiency programme showing first successes, but will continue to burden earnings this year

HSBC Trinkaus & Burkhardt AG (HSBC Germany) increased its revenues in all business divisions in 2019. However, weakness in the manufacturing sector and the ongoing negative interest rate environment had a noticeable impact on earnings. Operating revenues climbed 7% to €786.8m but primarily as a result of significantly higher impairments, pre-tax profit fell from €171.1m in 2018 to €144.8m.

“We increased our earnings in all business divisions last year and have made a good start into 2020,” says Carola von Schmettow, CEO of HSBC Germany. “However, in view of the highly competitive market environment, we must continue to adjust our cost structures to the challenging conditions.”

In 2020, earnings are also likely to remain adversely affected by the difficult situation in the export sector. In addition to further significant individual impairments, the costs of the efficiency programme the bank launched last year will make themselves felt. The programme is aimed at further improving processes and structures.

Net interest income and net fee income increased in the 2019 financial year. In the traditionally strong commission business, net fee income climbed to €453.1m (previous year: €430.7m). Net interest income rose to €228.1m (previous year: €216.1m) despite continued low interest rates. Net trading income decreased slightly by €1.9m to €70.4m. At the same time, the bank received one-time proceeds of €18.7m from the sale of a property.

Pre-tax profit was primarily affected by high individual impairments. Net loan impairment provision requirements rose by €50.2m to €45.1m after net reversals were recorded in the income statement in 2018. The result was also burdened by the expenses of €25.6m in connection with the efficiency programme launched in 2019.

Administrative expenses increased by €45.4m to €618.9m (previous year: €573.5m) in 2019. Staff expenses increased by €25.6m to €387.4m due in particular to expenses in connection with the efficiency programme. At 3,083, the number of employees at the end of 2019 was slightly lower than in the previous year (31. December 2018: 3,093). On average, HSBC Germany employed 3,097 people over the year, around 100 more than in the previous year (annual average 2018: 2,995). Other administrative expenses including write-downs rose by €19.6m to €231.5m. The efficiency programme already curbed the rise in costs in the second half of the year. The cost-income-ratio fell by one percentage point year-on-year to 76.5%. Adjusted for the expenses for the efficiency programme, the cost-income-ratio fell to 73.4%.

Among the individual divisions, Commercial Banking (CMB), the business with mid-market enterprises, generated the highest growth in income in percentage terms. Its operating income climbed more than 8% to €186.3m. With a 13% rise to €128.6m, net interest income was up significantly compared to the previous year (€113.3m). 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 €33.3m (previous year: €72.3m) due to the significantly higher allocations to net loan impairment provisions.

In the Global Banking & Markets division (GB&M), operating income rose by €23.2m, or more than 5%, to

€447.6m. Net fee income climbed by around €20m to €302.8m (previous year: €281.9m). Net fee income from transactions involving securities and financial instruments rose significantly, increasing to €106.8m from €85.7m in the previous year. The main drivers were business with fixed-income products.

In the securities portfolio business, the bank increased its net fee income to €125.6m (previous year: €115.1m). HSBC Securities Services achieved very strong growth in fund administration and the custodian bank business. Assets held in Custody increasing by around €130bn to €702.5bn in 2019. In fund administration, assets under Management also increased by more than 20% to €255.2bn from the end of 2018. The number of transactions in the securities settlement business rose by 10% to 66 million.

The higher income in GB&M was offset by higher administrative expenses. The cost increase was mainly due to expenses for the efficiency programme, and from the investment as part of the integration of securities processing for Commerzbank. As a result, pre-tax profit in the GB&M division fell to €65.8m from €83.8m in the previous year.

The Private Banking & Asset Management division increased its operating revenues slightly to €107m (previous year: €106.8m) despite the low interest rate environment while net profit before tax fell to €12.1m (previous year: €18.2m) due to higher administrative expenses. The above-average performance in asset management for private clients resulted in higher fee income.

HSBC Germany's total assets stood at €26.6bn as at the end of 2019 following €24.3bn as at 31 December 2018. This corresponds to an increase by €2.3bn or 9.5%. The Tier 1 capital ratio stood at 12.6% (previous year: 10.7%), with a regulatory capital ratio of 14.6% (previous year: 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 64 countries and territories worldwide which accounts for more than 90% of global economic output. HSBC is one of the world's largest banking and financial services organisations with assets of US\$2,715bn at 31 December 2019. 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. 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	31.12.2019	31.12.2018	Change in %
Total assets	26,593	24,284	9.5
Shareholders' equity	2,489	2,263	10.0
Loans and advances to customers	10,867	10,750	1.1
Trading assets	2,802	2,877	- 2.6
Positive market values of derivative financial instruments	1,164	1,266	- 8.0
Customer accounts	17,651	14,861	18.8
Trading liabilities	1,794	1,826	- 1.8
Negative market values of derivative financial instruments	1,070	979	9.3

Results in €m	31.12.2019	31.12.2018	Change in %
Net fee income	453	431	5.2
Net interest income	228	216	5.6
Net loan impairment	45	- 5	>100
Net trading income	70	72	- 2.6
Administrative expenses	619	574	7.9
Pre-tax profit	145	171	- 15.4
Net profit	98	117	-16.6

Ratios	31.12.2019	31.12.2018	Change in percentage points
Return on equity before tax in % (annualized)	5.9	7.6	- 1.7
Tier 1 capital ratio in %	12.6	10.7	1.9