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HSBC Germany sees growth despite a very difficult market environment

- Revenues up by 21% in the first half of the year
- Pre-tax profit improves to €98.6m thanks to strong capital market business
- Risk provisioning more than doubled
- Lending volume rises by 8%

The Covid-19 pandemic had a significant impact on the financial performance of HSBC Trinkaus & Burkhardt ('HSBC Germany') in the first half of 2020. The historic economic slump caused credit risk provisions to rise by 128% to €66.7m. Nevertheless, the Bank was able to fully leverage the strengths of its diversified business model in a very difficult market environment. Thanks mainly to its thriving capital market business, operating revenues climbed compared to the first half of 2019 by 20.6% to €464.7m. Pre-tax profit therefore increased to €98.6 (previous year: €47.2m) despite the higher risk provisioning.

"Through this economic crisis, we have demonstrated the quality of our client relationships. In these difficult times, we have not only provided our clients with liquidity, but have also increasingly supported them in tapping into capital markets and helped to protect them against sharp fluctuations in the markets," says Carola von Schmettow, CEO of HSBC Germany. "Unfortunately, there is still no end in sight to the macroeconomic dry spell. We will have to continue to live with great uncertainty for the rest of the year.

Despite the strong first half of the year, HSBC Germany expects only a slight year-on-year increase in operating revenues for the full year. This results from the effect that the second half of 2019 was significantly more successful than the first half of last year. The increase in operating revenues for the full year will be more than offset by credit risk provisions well above original planning. As a result, pre-tax profit for the year as a whole is expected to be slightly below the previous year's level.

Net fee income in particular improved significantly in the first half of the year, increasing to €268.4m (previous year: €221.7m). The main factors contributing to this rise were activities related to HSBC Securities Services, which increased the number of securities transactions settled to 104 million (previous year: 31 million), and Capital Financing, which was able to build on the very good results of previous years and more than quadrupled net fee income.

By the same token, trading benefited from higher volatility in almost all relevant markets. **Net trading income** almost doubled to €75.1m (previous year: €40.7m). Of that total, €64.5m alone (previous year: €22.3m) was attributable to trading with equities and equity/index derivatives.

Net interest income increased slightly to €115.6m (previous year: €113.5m) despite the ongoing impact of the negative interest rate. The pressure on the interest margin was more than offset by higher volumes. Loans and advances to customers rose by 8% to €11.7bn.

As in the second half of 2019, the efficiency programme to further enhance processes and structures resulted in relief on the cost side, with **administrative expenses** decreasing by €4.9m to €315.1m. Personnel expenses fell

by €7.4m to €189.5m. Other administrative expenses amounted to €107.8m, slightly higher than in the previous year (€104.5m). The **cost efficiency ratio** improved year on year from 80.7% to 65.5%.

In the individual divisions, **Commercial Banking (CMB)** was able to increase operating revenues by around 13% to €108.7m. Net fee income increased particularly strongly by 50% to €39.8m. In response to the economic turbulence, however, risk provisioning requirements also rose significantly by around €28m. As a result, the division reports a pre-tax loss of €3.8m, as compared to €7.9m pre-tax profit in the same period of the previous year.

The **Global Banking & Markets segment (GB&M)** recorded the strongest growth in the first half of the year. Operating revenues increased by 28% to €296.9m. Net fee income rose by €32m to €178.6m (previous year: €146.1m), and net trading income also improved by more than €30m to €68.6m (previous year: €37.8m). As many clients made intense use of the capital market, Capital Financing was able to increase net fee income by €26.7m to €34.8m. Growth was also achieved in HSBC Securities Services. The portfolio business and the traditional transaction business recorded a significant increase in fee income. However, it was not possible to repeat the excellent results of the previous year in the arrangement of business involving alternative investments.

The strong revenue growth was offset by an increase in risk provisions in GB&M to €7.8m. At the same time, administrative expenses decreased by €4m. All in all, the segment more than tripled its pre-tax profit to €98.8m (previous year: €28.7m).

In the **Private Banking & Asset Management** division, operating revenues fell slightly to €55.3m (previous year: €57.0m). While net interest income was €0.7m lower, net fee income benefited from revenue growth in the area of asset management for private clients as well as business with special funds, increasing by €0.8m. Since administrative expenses fell by €2.6m at the same time, the division recorded a €2.7m increase in pre-tax profit to €10.2m at mid-year.

The total assets of HSBC Germany increased from €26.6bn to €32.9bn in the first six months of the year. This corresponds to an increase of €6.3bn, or 23.8%, and is largely related to the Covid-19 crisis. In the wake of the turmoil on the capital markets, many institutional customers who keep their funds with HSBC Germany have increased their cash register positions. This has led to higher deposits. The tier 1 capital ratio increased to 12.9% (end of 2019: 12.6%) and the equity ratio to 14.8% (end of 2019: 14.6%). The return on equity is 8.3%.

Contact:

Robert von Heusinger

+49-211-910-1664

robert.heusinger@hsbc.de

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\$2,923bn at 30 June 2020. 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	30.06.2020	31.12.2019	Change in %
Total assets	32,914.5	26,592.8	23.8
Shareholders' equity	2,519.0	2,488.6	1.2
Loans and advances to customers	11,735.3	10,866.5	8.0
Trading assets	2,708.0	2,801.9	- 3.4
Positive market values of derivative financial instruments	1,435.6	1,164.2	23.3
Customer accounts	22,090.0	17,650.8	25.2
Trading liabilities	1,780.0	1,793.8	- 0.8
Negative market values of derivative financial instruments	1,345.9	1,070.0	25.8

Results in €m	30.06.2020	30.06.2019	Change in %
Net fee income	268.4	221.7	21.1
Net interest income	115.6	113.5	1.9
Net loan impairment	66.7	29.2	>100
Net trading income	75.1	40.7	84.5
Administrative expenses	315.1	320.0	- 1.5
Pre-tax profit	98.6	47.2	>100
Net profit	64.5	30.6	>100

Ratios	30.06.2020	31.12.2019	Change in percentage points
Return on equity before tax in % (annualized)	8.3	5.9	2.4
Net fee income in % of operating revenues	57.8	57.6	0.2
Tier 1 capital ratio in %	12.9	12.6	0.3