HSBC

Press release

30 August 2018

First half of 2018: HSBC Germany lays groundwork for further growth

- Eightdigit figure invested in digitalisation
- Number of employees rises to more than 3,000 for the first time
- Lending business grows by almost 12%
- High investment expenses and difficult market environment push pre-tax profit for the period down to €83.6m

HSBC Trinkaus & Burkhardt ("HSBC Germany") made substantial investments for further growth in the first half of 2018. An eightdigit figure was invested in the digitalisation of business processes alone. One focal point of the investments is the securities settlement business, where HSBC Germany is set to nearly double the number of transactions due to the partnership with Commerzbank, which is already under way. However, the high investment expenses and the difficult market environment for the fee-based business had a decidedly negative impact on pre-tax profit in the first six months of the financial year. Pre-tax profit stood at €83.6m and therefore fell significantly short of the previous year's good result of €153.2m, which was also influenced by positive non-recurring effects.

"We are making substantial investments in our growth because we still see considerable potential for our bank in the German market," said Carola von Schmettow, CEO of HSBC Germany. "This also makes us an increasingly attractive employer. The number of employees at our company has grown by around one-fifth since we launched our growth initiative in 2013. We broke the mark of 3,000 employees for the first time in July. Although the difficult market environment in the first half of the year is also reflected in our figures, we continue to work systematically on stabilising our revenues."

The lower result for the first six months of the year reflects a high level of investment as well as losses in the traditionally strong fee-based business in particular. Net fee income stood at €210.8m (previous year: €259.2m) and was therefore down 18.7% year on year. Demand for fixed-income products and alternative investments was lower among customers due to concerns about rising interest rates and a weaker global economy. This development had a particularly marked impact on Global Banking & Markets that was only partially offset by higher revenues in fund administration and the custodian bank business. At €42.6m, net trading income was down slightly from the figure of €45.2m recorded in the same period of the previous year.

By contrast, net interest income improved slightly to €103m (HY17: €101.5m). As it was only possible to replace maturing bonds with bonds offering a comparable risk profile and a far lower coupon, interest income from financial assets fell once again. However, this development was offset by higher interest income from the growing lending business. Loans and advances to customers increased by 11.6% to €10.4bn in the first half of the year. The Bank sees further growth potential here, as large portions of the existing credit lines have not yet been exhausted and the Bank's healthy capitalisation enables further lending. Net reversals of €2.6m were recognised in the income statement as net loan impairment provisions.

Administrative expenses increased to €290.3m in the first half of 2018 (HY17: €285.6m). Material expenses were up, whereas staff expenses were down slightly.

The result in the Commercial Banking segment, the business with mid market enterprises, was nearly on par with the good level seen in the previous year. Growth in the international interest rate and fee-based business, which includes trade finance, largely compensated for the declines in the domestic business, particularly in clients' foreign exchange transactions. However, the growth of our client business was reflected to a greater extent within the balance sheets of foreign Group companies than German.

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The Private Banking & Asset Management division was able to increase its net revenues slightly year on year. The Bank has yet to pass negative interest rates onto its private clients.

HSBC Germany's total assets stood at €28.3bn as at mid-2018 following €24.3bn as at 31 December 2017, corresponding to an increase of €4bn or 16.7%. The Bank's capitalisation remains very comfortable, as indicated by the Tier 1 capital ratio of 11.8% (12.7%) and the regulatory capital ratio of 13.5% (14.5%). At 8.3%, return on equity remains above the German industry average.

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HSBC Germany
HSBC Germany is part of the HSBC Group, one of the world's leading commercial banks. It is the "Leading International Bank" and has a network in 66 countries 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. The "AA-" (stable) rating is the best Fitch rating of a private commercial bank 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 eleven locations.

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HSBC Trinkaus & Burkhardt Group

Consolidated figures according to International Financial Reporting Standards (IFRS)

Balance sheet figures in €m	**30.06.2018**	**31.12.2017**	**Change in %**
Total assets	28,331.6	24,278.9	16.7
Shareholders' equity	2,229.5	2,296.4	– 2.9
Loans and advances to customers	10,437.9	9,348.9	11.6
Trading assets	3,208.7	3,702.1	– 13.3
Positive market values of derivative financial instruments	1,482.1	1,420.8	4.3
Customer accounts	18,385.9	14,591.7	26.0
Trading liabilities	2,252.2	2,365.2	– 4.8
Negative market values of derivative financial instruments	1,280.9	1,248.1	2.6

Income statement in €m	**30.06.2018**[1]	**30.06.2017**	**Change in %**
Net fee income	210.8	259.2	– 18.7
Net interest income	103.0	101.5	1.5
Net loan impairment provision	– 2.6	– 0.1	>100
Net trading income	42.6	45.2	– 5.8
Administrative expenses	290.3	285.6	1.6
Pre-tax profit	83.6	153.2	– 45.4
Net profit	**55.0**	**102.3**	**– 46.2**

Ratios	**30.06.2018**	**31.12.2017**	**Change in percentage points**
Return on equity before tax in % (projected for the full year)	8.3	14.6	– 6.3
Net fee income in % of operating revenues	58.3	63.0	– 4.7
Tier 1 capital ratio in %	11.8	12.7	– 0.9

1 The information as at 30 June 2018 was drawn up using IFRS 9 and IFRS 15. The information and notes on the same period in the previous year have not been adjusted and correspond to the accounting provisions applicable as at the balance sheet date presented therein. Further details can be found in the consolidated interim report.