HSBC

News Release

31 August 2016

HSBC Germany reports strong growth in the first half of the year: profit before tax up 15.5%

- Net fee income increased by 11.5% to €238.4m
- Regulatory capital ratio declined slightly to 11.5%
- Cost efficiency ratio reduced to 71.3%

The growth strategy launched by HSBC Trinkaus & Burkhardt AG ("the Bank") three years ago is yielding results. Its positioning as 'Leading International Bank' in Germany, aimed at being one of the top 3 banks for its institutional clients, international corporate clients and high net worth private clients, is paying off. The Bank recorded increases in all relevant earnings figures and in profit before tax in a challenging first half of 2016.

Net interest income benefited from the significant expansion of corporate loans to €9bn reflecting further market share gains in the corporate banking business, which were able to compensate for the pressure coming from negative interest rates. Capital financing and the syndicated loan business reported the strongest growth in net fee income, both underlining the growing relevance of the Bank in providing advice and financing for large corporate transactions in Germany.

As a result of the intensive cooperation within the HSBC Group, the Global Banking & Markets segment reported the strongest earnings growth in the first half of the year of almost 30%. The Commercial Banking segment grew by around 20%, primarily due to the volume-based increase in interest and fee income. On the other hand, the Global Private Banking & Asset Management segment was not able to counter the lower net interest income as a result of negative interest rates, and profit in this segment declined to €9.3m in the first half of the year (H1 2015: €14.4m).

The strong client business in the first half of the year was able to more than compensate for the pressure coming from the low interest rate environment, the major uncertainty on the financial markets as well as steadily rising regulatory costs. Profit before tax* was up 15.5% to €116.5m (adjusted H1 2015: €100.9m). Net profit after tax grew to €79.9m (adjusted H1 2015: €69.1m).

The Bank's strong growth as well as balance sheet date-related effects saw an increase in total assets compared to 31 December 2015 of €3.5bn to €25.2bn. As a result of this, the regulatory capital ratio declined to 11.5% (31 December 2015: 12.6%) and the tier 1 capital ratio to 9.4% (31 December 2015: 10.3%). The Bank's liquidity position remains good. HSBC Trinkaus & Burkhardt AG, the HSBC Group's principal subsidiary in Germany, is rated 'AA - (Stable)' by Fitch Ratings.

The decline in the cost efficiency ratio to 71.3% (adjusted H1 2015: 72.7%) reflects the Bank's stronger orientation to qualitative growth. After the significant investments in recent years, costs should grow at a slower pace in 2016.

Outlook

Based on the favourable first-half results, the Bank is expecting a single-digit percentage increase in revenues for the full year. It is therefore leaving its forecast unchanged due primarily to the negative interest rate environment, which presents a greater burden from month to month. Furthermore, the unsolved euro crisis, the consequences of the UK's decision to leave the European Union as well as the weak global growth also sound a note of caution.

Financial commentary

Net interest income improved by €12.5m, from €88.9m the previous year to €101.4m. This increase was attributable primarily to the significant improvement in interest income in the client lending business on account of higher volumes. On the other hand, interest income from financial assets declined again. Maturing bonds could only be replaced by bonds offering a comparable risk profile with a far lower coupon in the current market environment. Furthermore, the low margins in the lending business continue to put pressure on net interest income; as there is no possibility of passing negative interest rates on to all customers, the Bank's strong deposit base is leading to interest losses.

Net loan impairment and other credit risk provisions recorded a net release of €1.0m in the first half of the year (H1 2015: net addition of €1.2m). A net release of individually assessed impairments of €2.9m was set against a net addition to collectively assessed impairments of €2.0m due to the major expansion of the client lending business. Our conservative orientation is unchanged in relation to the assessment of default risks.

Net fee income increased by €24.5m to €238.4m (H1 2015: €213.9m). In a year-on-year comparison net fee income from securities transactions improved from €54.5m to €63.2m. The Bank was again able to provide additional clients with access to interesting investments with products for infrastructure investments, alternative investments and the financing of European corporate clients here.

Net trading income rose by €7.5m to €49.9m (adjusted H1 2015: €42.4m). After the distortions on the bond markets in the second quarter of the previous year, net income from trading with bonds and interest rate derivatives improved in the first six months of 2016, while trading with equities and equity derivatives made a slightly lower and foreign exchange trading a slightly higher earnings contribution.

Administrative expenses rose by €15.7m, from €271.5m to €287.2m. The increase in the workforce to support the growth strategy is reflected in €10.1m higher staff expenses. Other administrative expenses rose by €6.9m to €101.2m, due mainly to the charges resulting from the new bank levy in accordance with European provisions.

Income from financial assets declined significantly compared to the prior-year period to €5.0m (adjusted H1 2015: €21.5m). Gains realised on the sale of financial assets were set against moderate impairments on financial assets. The significant decline is due to the major gains realised on the sale of fund units included in the prior-year period.

Total assets rose by €3.5bn compared to 31 December 2015 to €25.2bn. Customer accounts remain our most important source of refinancing and amounted to €14.7bn as at 30 June 2016 (31 December 2015: €12.9bn), therefore accounting for 58% of total assets. We continue to regard this as a clear commitment on the part of the Bank's clients to its solid business policy and high credit standing.

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Notes to editors:

1. HSBC Trinkaus & Burkhardt AG
HSBC Trinkaus & Burkhardt AG is a leading client-oriented commercial bank with now 230 years of experience. It is part of the globally-operating HSBC Group. With more than 2,800 employees, the Bank can be found in 12 locations in Germany, in addition to the head office in Düsseldorf. Germany is a priority growth market for the HSBC Group. HSBC Trinkaus & Burtkhardt AG's particular strength lies in the comprehensive servicing of its clients, its detailed knowledge of the international markets, mainly the emerging markets, as well as its global network which helps clients grasp international opportunities. HSBC Trinkaus & Burkhardt AG, the HSBC Group' s principal subsidiary in Germany, is rated 'AA-(Stable)' by Fitch Ratings. The Bank has total assets of €25.2billion and €228,6bn in funds under management and administration. The Bank's central target groups are corporate clients, institutional clients and high net worth private clients (all figures as at 30 June 2016).

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* Prior-year figures adjusted due to a change in accounting policies.

2. HSBC Holdings plc
HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 4,400 offices in 71 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US$2,608bn at 30 June 2016, HSBC is one of the world's largest banking and financial services organisations.

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