HSBC

Pressemitteilung

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HSBC Germany gains market share in 2018

- Lending business expanded by 15.0%
- Strong performance in securities services
- Continuing investment in personnel and IT
- Weakness in the bond business and absence of positive non-recurring effects pushes pre-tax profit down to €171.1m

HSBC Trinkaus & Burkhardt AG ('HSBC Germany') gained market share and invested in further growth in the 2018 financial year. There was particularly strong growth in the Commercial Banking segment – the business with mid-market enterprises. This grew by 32.6%, driven by a 15.0% increase in the lending business. The bank also grew its market share in securities services. It increased the number of employees and invested in securities settlement. However, as expected, the difficult environment for fixed interest investments and foreign exchange, the impact of the transition of the accounting policies to IFRS 9 and the absence of positive non-recurring effects significantly pushed pre-tax profit down to €171.1m compared to €251.3m in the previous year. Charges of €14.0m were included in the income statement for the first time in 2018 under IFRS 9 and the 2017 result was also influenced by one-time disposal gains of €35.6m. At €167.0m for the 2018 financial year, operating profit at HSBC Germany was 15.6% down on the prior-year figure of €197.9m.

Carola von Schmettow, CEO of HSBC Germany, said: "Last year we invested in growing our business and strengthened our market position, areas which we continue to build on in 2019. We've grown significantly in the corporate banking business and in securities services. We've reinforced our capital base and hired new employees. While the difficult market environment has impacted our results for 2018, I'm confident we'll stabilise our revenues further and expand our business across all segments."

Despite continuing pressure coming from the low interest rate environment in 2018, net interest income was up by 9.2% to €216.1m (2017: €197.9m). This is due primarily to higher lending volumes and growing income in receivables finance. This area has benefited from investment in a platform connecting clients' back office systems and automating processes. This has led to growth in market share and has reinforced the bank's leading technological position in this business. Loans and advances to customers grew 15.0 % to €10.7bn (2017: €9.4bn). The bank sees further growth potential here, as large portions of existing credit lines have not yet been exhausted. It also continues to apply high standards when assessing default risks. Net reversals of €5.1m were recognised in the income statement as net loan impairment provisions in the lending and securities business.

The results generated in the traditionally strong fee-based business was down on the prior year. Demand for fixed income products and alternative investments in particular was lower among customers due to concerns about rising interest rates. This challenge affected the whole industry. On the other hand, the bank's market share in the bond business remained stable at 10%, putting the bank among the top three in Germany and Austria. Net fee income of €430.7m was 10.8% below the prior-year figure of €482.9m. Most of this decline is attributable to the Global Banking & Markets segment.

Income generated from equities trading improved slightly, with investment certificates and trading products recording the largest volumes. Bond trading was also affected by unfavourable market conditions. Net trading income of €72.3m was lower than the overall prior-year figure of €83.9m.

There was a significant increase in the results for the Commercial Banking segment, up 32.6 % to €49.6m (2017: €37.4m). This is due primarily to the strong increase in lending volumes and higher interest income from the Receivables Finance business. HSBC Germany's strategic positioning as the leading international bank for

HSBC Deutschland

Postfach 10 11 08, 40002 Düsseldorf
Königsallee 21/23, 40212 Düsseldorf
Telefon: +49 211 910-0
Telefax: +49 211 910-616

German clients also paid off in 2018: Global revenues with German corporates (mid-market-enterprises and Global Banking) rose by more than 10%.

As in the previous year, the Capital Financing segment continued producing good results and saw an increase in net fee income of €2.5m to €45.2m (2017: €42.7m). In terms of fee income in investment banking, the bank is among the top six in Germany, an increase of five places compared to 2017.

HSBC Germany increased its market share in the securities business. The overall volume managed in the custody business grew by more than 20% to €572.1bn, while the depositary business reported a strong increase in volume of around 25% to €221.5bn. In the securities settlement business, the number of transactions grew by 9% to €60m. Revenues in Securities Services grew by 5% to €142.9m (2017: €135.7m).
The restraint being exercised by investors was also reflected in the Private Banking & Asset Management segment. The Bank has yet to pass negative interest rates onto its private clients.

Administrative expenses increased in the 2018 financial year to €573.5m (2017: €559.2m), mainly due to the increase in the number of employees, with staff expenses up by €13.7m to €361.7m.

At the end of the 2018 financial year, the bank further strengthened its regulatory tier 2 capital by €200m by means of a subordinated capital contribution from HSBC Bank plc. This was in reaction to an increase in risk-weighted assets, deriving in particular from the expansion of the lending business. In January 2019, HSBC Germany also increased tier 1 capital by €200m.

HSBC Germany is investing in personnel and IT. The number of employees grew over the course of the year from 2,879 to 3,093. Today the bank has around a fifth more employees than five years ago. Several large-scale projects also got underway in 2018, such as the replacement of the core banking system. The integration of securities processing for Commerzbank is fully underway, with the first test transactions via the HSBC system carried out successfully.

HSBC Germany's total assets stood at €24.3bn at 31 December 2018, the same figure as at 31 December 2017. The bank's capitalisation remains comfortable, as indicated by the tier 1 capital ratio of 10.7% (12.7%) and the regulatory capital ratio of 13.4% (14.5%). The raising of additional tier 1 capital in January 2019 will further improve the ratios. The return on equity before tax of 7.6% is down on the previous year (11.8%).

The bank expects a single-digit increase in net operating revenues sourced from growth across all business lines in 2019. The continuous substantial investments in customer-centric projects and the modernisation of the IT infrastructure will continue to negatively impact pre-tax profit, before generating revenues in the longer term. Improving capital efficiency remains a key priority in the current year. HSBC Germany expects a pre-tax profit for 2019 on par with the prior year.

Contact:

Robert 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 66 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- (stable) 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	31.12.2018*	31.12.2017	Change in %
Total assets	24,284.1	24,278.9	0.0
Shareholders' equity	2,273.1	2,296.4	(1.0)
Loans and advances to customers	10,749.8	9,348.9	15.0
Trading assets	2,876.7	3,702.1	(22.3)
Positive market values of derivative financial instruments	1,265.6	1,420.8	(10.9)
Customer accounts	14,861.4	14,591.7	1.8
Trading liabilities	1,825.9	2,365.2	(22.8)
Negative market values of derivative financial instruments	978.7	1,248.1	(21.6)

Income statement in €m	31.12.2018	31.12.2017	Change in %
Net fee income	430.7	482.9	(10.8)
Net interest income	216.1	197.9	9.2
Net loan impairment provision	– 5.1	23.9	> 100.0
Net trading income	72.3	83.9	(13.8)
Administrative expenses	573.5	559.2	2.6
Operating result	167.0	197.9	(15.6)
Income from financial assets	17.8	53.2	(66.5)
Pre-tax profit	171.1	251.3	(31.9)
Net profit	117.6	172.8	(31.9)

Ratios	31.12.2018	31.12.2017	Change in percentage points
Return on equity before tax in %	7.6	11.8	(4.2)
Tier 1 capital ratio in %	10.7	12.7	(2.0)
Regulatory capital ratio in %	13.4	14.5	(1.1)

* The information as at 31 December 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.