REGISTRATION DOCUMENT

22 July 2011

HSBC Trinkaus

This document (this "**Registration Document**") has been prepared for the purposes of providing the information disclosure on HSBC Trinkaus & Burkhardt AG, Düsseldorf, Federal Republic of Germany (the "**Issuer**") required by Directive 2003/71/EC (the "**Prospectus Directive**") to be included (whether pursuant to § 11 or § 12 of the German Securities Prospectus Act (*Wertpapierprospektgesetz, "WpPG"*) in connection with § 9 German Securities Prospectus Act, as applicable), in the registration document component of any prospectus of which this Registration Document forms part, submitted to the *Bundesanstalt für Finanzdienstleistungsaufsicht* ("**BaFin**") in connection with the issuance by the Issuer of bonds, notes, warrants, certificates and other securities of any description, which are non-equity securities (as defined in the Prospectus Directive) and in respect of which a prospectus is required to be published for the purposes of the Prospectus Directive as implemented in any jurisdiction.

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RISK FACTORS

As is the case with all companies existing under private law, there is a general risk of insolvency for the Issuer. The realisation of this risk would have the consequence that the Issuer would not be able to fulfil its payment obligations under any issued securities owed to the holders, and the holders would only be able to register their claims in accordance with the German Insolvency Code (*Insolvenzordnung*).

There is no protection against these risks by the deposit insurance fund of the Federal Association of German Banks (*Einlagensicherungsfonds des Bundesverbandes Deutscher Banken*), by Entschädigungseinrichtung Deutsche Banken GmbH or comparable institutions for any securities issued by the Issuer.

For these reasons, there is the risk for the investor in the case of insolvency of the Issuer that there will be a total loss of the capital expended for the acquisition of any securities issued by the Issuer (purchase price plus other costs associated with the purchase).

RESPONSIBILITY STATEMENT

HSBC Trinkaus & Burkhardt AG whose registered office is at Königsallee 21/23, 40212 Düsseldorf, Federal Republic of Germany is responsible for the content of this Registration Document pursuant to § 5 para 4 German Securities Prospectus Act (*Wertpapierprospektgesetz, "WpPG"*) and hereby accordingly declares that the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and that no material circumstances have been omitted.

HSBC Trinkaus & Burkhardt AG hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

GENERAL

This document is valid for the period of twelve months from the date of its publication and is to be read and construed with any prospectus which incorporates this document, where any such supplement relates to the content of this document. A copy of this Registration Document and any supplement to any prospectus in which this Registration Document is incorporated by reference will be available free of charge during the life of this Registration Document, during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays), for inspection at the office of HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf, Federal Republic of Germany and may also be inspected and obtained on HSBC Trinkaus & Burkhardt AG 's website www.hsbc-zertifikate.de.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of its affiliates.

This Registration Document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or any other person that any recipient of this Registration Document should purchase any securities issued by the Issuer. Each investor contemplating purchasing securities issued by the Issuer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. No part of this Registration Document when read together with any prospectus which incorporates this document constitutes an offer to sell or the solicitation of an offer to buy any securities issued by the Issuer at any time or in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation at such time or in such jurisdiction.

Neither the delivery of this Registration Document nor any documentation relating to any securities issued by the Issuer (including without limitation any base prospectus or final terms for the purposes of the Prospectus Directive) nor the offering, sale or delivery of any such securities shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof, or that the information contained in the Registration Document is correct at any time subsequent to the date hereof or that any other written information delivered in connection herewith or therewith is correct as of any time subsequent to the date indicated in such document. Investors should review, inter alia, the most recent financial statements of the Issuer when evaluating any securities issued by the Issuer or an investment therein. However, the Issuer will always comply with the applicable statutory requirements to publish supplements in accordance with § 16 WpPG.

The distribution of this Registration Document and the offer or sale of securities issued by the Issuer by making reference to this Registration Document may be restricted by law in certain jurisdictions. Persons into whose possession this Registration Document or any securities issued by the Issuer come must inform themselves about, and observe, any such restrictions.

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INFORMATION RELATING TO THE ISSUER

Statutory Auditors

Name and Address

The Issuer's auditor is KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Am Bonneshof 35, 40474 Düsseldorf, Federal Republic of Germany, Tel. 0211/4757000 (the "**Auditor**"). The Auditor is a member of the German Chamber of Accountants (*Deutsche Wirtschaftsprüferkammer*) as well as a member of the Institute of Accountants (*Institut der Wirtschaftsprüfer* - "IDW").

Change

There has been no change in the auditors of the Issuer in recent years.

History and Development of the Issuer

Legal and Commercial Name of the Issuer

The legal name of the Issuer is HSBC Trinkaus & Burkhardt AG; the commercial name is HSBC Trinkaus.

Registration of the Issuer in the Commercial Register

The Issuer was a result of converting the limited partnership (*Kommanditgesellschaft*) Trinkaus & Burkhardt to an association limited by shares (*Kommanditgesellschaft auf Aktien*) and was registered in the commercial register of the Local Court (*Amtsgericht*) Düsseldorf on 13 June 1985 under the number HRB 20 004. In a resolution of the shareholders meeting (*Hauptversammlung*) on 2 June 1999, the name was changed from "Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien" to "HSBC Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien"; the registration in the commercial register took place on 17 June 1999. In the regular shareholders meeting on 30 May 2006, the conversion of HSBC Trinkaus & Burkhardt KGaA into a stock corporation (*Aktiengesellschaft*, "AG") was resolved; the registration in the commercial register took place under number HRB 54447 on 31 July 2006.

Incorporation of the Issuer

The origins of the Issuer reach back to the wholesale trading business Christian Gottfried Jäger established in 1785 in Düsseldorf, which later became Bankhaus C. G. Trinkaus, as well as the bank Simon Hirschland established in Essen in 1841, the successor of which was Bankhaus Burkhardt & Co. The banks C. G. Trinkaus, Düsseldorf, and Burkhardt & Co., Essen, which had been conducted as limited partnerships (*Kommanditgesellschaften*), merged to form the limited partnership Trinkaus & Burkhardt in 1972.

Registered Office and Legal Form of the Issuer

The registered office of the Issuer is in Düsseldorf. There are branches in Baden-Baden, Berlin, Frankfurt am Main, Hamburg, Munich and Stuttgart. The Issuer is conducted in the form of a stock corporation (AG) and is primarily active within the German jurisdiction. The Issuer is represented in foreign countries by subsidiary institutions in Luxembourg, HSBC Trinkaus & Burkhardt (International) SA and HSBC Trinkaus Investment Manager SA, as well as in Hong Kong with HSBC Trinkaus Investment Management Ltd. The Issuer was established in Germany, and its registered office is located in Königsallee 21/23, 40212 Düsseldorf, Federal Republic of Germany, Tel.: 0211/910-0.

Any recent Events particular to the Issuer which are to a material extent relevant to the Evaluation of the Issuer's Solvency

No such events are known.

Rating

Rating agencies such as, for example, the rating agency Fitch Ratings Ltd., assess with the aid of a credit evaluation whether a potential borrower will be in a position in the future to comply with its loan obligations in accordance with the agreements. A material component for the classification of the credit worthiness (= rating) is the evaluation of the assets situation, the financial position and the earnings position of the company.

Categories of long term Fitch ratings (Long-Term (LT) Issuer Default Rating (IDR)):	*Categories of short term Fitch ratings (Short-Term Rating):*
AAA *AA* *A* *BBB* *BB* *B* *CCC* *CC* *C* *RD* *D*	*F1* *F2* *F3* *B* *C* *RD* *D*

"+" or "-" symbols are attributed to a rating in order to describe its position within the main rating category.

The rating agency Fitch Ratings Ltd. has set the long term rating of the Issuer at "AA" and the short term rating at "F1+". The outlook is stable. (Source: www.fitchratings.com) The domicile of the rating agency Fitch Ratings Ltd. is the European Community. According to the "REGULATION (EC) No 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 September 2009 on credit rating agencies" Fitch Rating Ltd. has filed an application for registration. The application has not yet been allowed by the date of this document.

The classification of the long term credit liabilities with "AA" means that they have a very low credit risk. The classification of the short term credit liabilities with "F1+" means that the Issuer is in an excellent position to repay its short term credit liabilities. The outlook provides an indication about the direction in which the rating will likely develop over a period of one to two years.

The rating serves only as an aid for making a decision and should not constitute the basis for a decision to purchase or sell any securities issued by the Issuer.

Business Overview

Principal Activities

Principal activities of the Issuer

The Issuer provides qualified financial services for wealthy private clients, corporate clients and institutional clients. The main emphasis lies in the overall scope of services in securities transactions, interest rate and currency management as well as in foreign business and asset management.

The emphasis of the **private client business** lies in providing comprehensive advice and care for wealthy private investors, primarily on the basis of individual management agreements and authorisations.

The **corporate client business** of the Issuer is clearly focused on certain target groups. The Issuer provides a comprehensive range of qualified services or oriented towards the specific needs for the higher end mid-size enterprises which are often still under family management, as well as for international trading companies and large corporate groups. The basis of working together can often be found in the classic commercial business: Financing working capital and settlement of national or international payments. The emphasis and the increased value for the clients of the Issuer, however, lies in the broad spectrum of special services in the field of interest and currency management, in the securities business and also in investment banking. In the own view of the Issuer, the global network of the HSBC group (consisting of HSBC Holdings plc, London and its subsidiaries, the "**HSBC Group**") in many parts of the world guarantees access to first class banking and finance services in transactions involving foreign countries.

The **foreign business**, a central field of business with a traditional high value, is concentrated in trade financing, settling payments abroad and business with documentary letters of credit. Protection against foreign risks as well as the financing and discounting of export receivables are offered in this field.

In the **business with institutional clients**, the Issuer differentiates the direct business (European Brokerage) and asset management for this client group. The brokerage business with institutional clients provides all services relating to German, European and Asian stocks as well as German and European bonds for professional clients. A further emphasis lies in the development and distribution of investment products which the Issuer considers to be intelligently structured.

The activities in **portfolio management** for institutional clients are concentrated in HSBC Global Asset Management (Deutschland) GmbH (AMDE) and based on fundamental, technical and quantitative research conducted by the Issuer itself and the HSBC Group. The Issuer is convinced that it has a clear dedication to quality in the various investment processes which is responsible for the good demand for the portfolio management service. Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) sets up public investment funds and special investment funds, just as does the Luxembourg subsidiary, HSBC Trinkaus Investment Managers SA.

The Issuer’s **activity as an issuer** in the field of structured securities such as warrants and certificates is at a high level, and this is reflected in the ongoing quantitative and qualitative growth of the offering of structured products.

The **Global Custody Team** supports institutional clients in safekeeping and managing their securities using the resources of the HSBC Group. HSBC Trinkaus has been servicing mutual and special funds as a custodian bank since 1969, its clients including banks, companies, pension funds, capital investment companies and asset managers.

The **HSBC Transaction Services GmbH (ITS)** offers tailor-made services based on leading technologies in all matters relating to the settlement, management and safekeeping of securities. As a business enabler HSBC Transaction Services GmbH (ITS) provides its clients with all services for securities-related middle-office and back-office processes, such as order routing, transaction settlement and custodian services, via electronic interfaces.

The activities of the Issuer in the field of **primary market business** include providing advice and support for business companies, financial institutions and public authorities (*öffentliche Hand*) in connection with capital market transactions related to debt capital. In this regard, the Issuer as an integral part of the global capital market activities of the HSBC Group offers a comprehensive range of products, including public issues of debt, equity linked and other structured issues and private placement of certificated loans (*Schuldscheindarlehen*) and medium term notes.

The field of **investment banking** includes, among other items, consulting services in the fields of mergers and acquisitions and privatisation as well as the capital markets business related to equity capital, especially changes in the holdings of stock packages, stock retirement, capital increases and initial public offerings.

The **trading** division includes all trading activities of the Issuer with securities, money and currencies. Stocks and stock derivatives, fixed interest securities and interest derivatives as well as currencies and currency options are traded for own account on stock exchange markets and markets outside of the stock exchanges. Considerable turnover is realized above all with certificated loans, stocks, options and structured products. The trade with money and currencies has a central position when it comes to managing the liquidity and foreign currency position of the Issuer. The business with lending securities and Repos supports, on the one hand, the satisfaction of obligations to deliver resulting from the trading field and, on the other hand, increasingly the liquidity management of the Issuer.

New Products and Activities

For the purpose of the description of the principal activities of the Issuer new products and activities are not to be mentioned.

Principal Markets

The main fields of activity of the Issuer listed above are primarily focused on the German market.

Basis for Statements on the competitive position

A statement on the competitive position of the Issuer with respect to its competitive position will not be given.

Organisational Structure

Membership in a Corporate Group

The Issuer is a part of the HSBC Group, the top company of which is HSBC Holdings plc, London, which in turn holds indirectly 80.44 % of the shares in the Issuer.

The HSBC Group is, in its own opinion, one of the largest banking and financial services groups worldwide, having branches in Europe, in the Asia Pacific region, North America, Middle America and South America, the Middle East and Africa.

The stock of HSBC Holdings plc, London, is listed on the exchanges in London, Hong Kong, New York, Paris and the Bermudas.

The HSBC Group is involved with its international network particularly in general banking, corporate client business, investment banking and in serving private clients.

The Issuer has concluded cooperation and service agreements with various companies in the HSBC Group. The consolidated financial statements of the Issuer are incorporated into the consolidated financial statements of HSBC Holdings plc, London.

Dependency on other Members of the Group

The Issuer is part of the HSBC Group. The Issuer is directly dependent within the meaning of § 17 German Stock Corporations Act (*Aktiengesetz*, "AktG") on HSBC Germany Holdings GmbH, Düsseldorf, which holds 80.44% of the shares in the Issuer. The corporate purpose of HSBC Germany Holdings GmbH is the acquisition and administration of participations in German companies. At the present time, HSBC Germany Holdings GmbH only holds shares in the Issuer.

The sole shareholder of HSBC Germany Holdings GmbH is HSBC Bank plc, London. HSBC Bank plc conducts the operative banking business in Great Britain and is itself a 100% subsidiary of HSBC Holdings plc, the top company of the HSBC Group with its registered office in London.

Thus, the Issuer is an indirectly dependent enterprise within the meaning of § 17 AktG with regard to HSBC Holdings plc and HSBC Bank plc.

Among other provisions, the Issuer is subject to §§ 311 et seq. AktG.

Trend Information

Material Adverse Changes in the Prospects of the Issuer

There have been no material adverse negative changes in the prospects of the Issuer since the date of the last audited annual financial statements of the Issuer, 31 December 2010.

Information on any known Trends, Uncertainties, Demands, Commitments or Events that are reasonably likely to have a Material Effect on the Prospects of the Issuer for at least the current Financial Year

The Issuer is not aware of any such information.

Profit Forecasts or Estimates

No information.

Administrative, Management and Supervisory Bodies

Supervisory Board, Management Board

Members of the Supervisory Bodies

The Supervisory Board

The Supervisory Board consists of 16 members in accordance with § 7 clause 1 phrase 2 Co-determination Act (MitbestG) in conjunction with § 7 clause 1 phrase 1 No. 2 Co-determination Act (MitbestG). According to §§ 1 Clause 1, 7 Clause 1 phrase 1 No. 1 Co-determination Act (MitbestG) in conjunction with §§ 95 phrase 5, 96 clause 1 case 1, 101 Clause 1 Companies Act (AktG) eight members are representatives of the shareholders and eight are representatives of the employees. Herbert H. Jacobi, formerly a personally liable partner of the Issuer, is the honorary chairman of the Supervisory Board since 8 June 2004. All members of the Supervisory Board can be reached under the business address of the Issuer, Königsallee 21/23, 40212 Düsseldorf.

The members of the Supervisory Board are:

Dr. Sieghardt **Rometsch**, Düsseldorf Chairman formerly a personally liable partner HSBC Trinkaus & Burkhardt KGaA (now HSBC Trinkaus & Burkhardt AG)	
Mandates in supervisory boards and comparable control bodies:	Düsseldorf University Clinic, Düsseldorf (Chairman) HSBC Private Banking Holdings (Suisse) S.A., Geneva, Switzerland (Member of the Board) Management Partner GmbH, Stuttgart (Chairmann)
Samir **Assaf**, London Group Managing Director, Chief Executive Global Banking and Markets, HSBC Holdings plc, London	
Mandates in supervisory boards and comparable control bodies:	Asset Management HSBC UK, London HSBC Egypt, Cairo, Egypt
Peter W. **Boyles**, Paris Chief Executive Oficer Continental Europe, Deputy Chairman France, HSBC France, Paris	
Mandates in supervisory boards and comparable control bodies:	HSBC Bank A.S., Istanbul, Turkey (Chairman) HSBC Bank Malta plc, Valetta, Malta HSBC Bank plc, London HSBC France, Paris, France (Deputy Chairman) SA des Galeries Lafayette, Paris, France
Deniz **Erkman***, Krefeld Bank Employee	
Monika **Frank***, Frankfurt am Main Employee Deutscher Bankangestellten-Verband	
Stefan **Fuchs***, Düsseldorf Bank Employee	
Dr. Hans Michael **Gaul**, Düsseldorf	
Mandates in supervisory boards:	Evonik Industries AG, Essen EWE Aktiengesellschaft, Oldenburg Siemens AG, Munich VNG – Verbundnetz Gas AG, Leipzig

Friedrich-Karl **Goßmann***, Essen Bank Employee	
Birgit **Hasenbeck***, Düsseldorf Bank Employee	
Wolfgang **Haupt**, Düsseldorf former personally liable partner HSBC Trinkaus & Burkhardt KGaA (now HSBC Trinkaus & Burkhardt AG)	
Mandates in supervisory boards:	Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman)
Mandates in supervisory boards and comparable control bodies:	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Chairman)
Harold **Hörauf**, Eggstätt former personally liable partner HSBC Trinkaus & Burkhardt KGaA (now HSBC Trinkaus & Burkhardt AG)	
Mandates in supervisory boards:	BVV Pensionsfonds des Bankgewerbes AG, Berlin HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA (Chairman)
Mandates in supervisory boards and comparable control bodies:	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Friedrich **Merz**, Arnsberg Partner Mayer Brown LLP	
Mandates in supervisory boards:	AXA Konzern AG, Cologne Borussia Dortmund AG, Frankfurt Deutsche Börse AG, Frankfurt WEPA Industrieholding SE, Arnsberg (Chairman)
Mandates in supervisory boards and comparable control bodies:	BASF Antwerpen N.V., Antwerpen, Belgium Stadtler Rail AG, Bussnang, Switzerland
Oliver **Popp***, Frankfurt am Main Employee Deutscher Bankangestellten-Verband	

Ralf **Rochus***, Essen Bank Employee	
Carsten **Thiem***, Düsseldorf Bank Employee	
Hans-Jörg **Vetter** Chairman of the Management Board Landesbank Baden-Württemberg, Stuttgart	
Mandates in supervisory boards:	Herrenknecht AG, Schwanau
Mandates in supervisory boards and comparable control bodies:	DekaBank Deutsche Girozentrale, Frankfurt Deutscher Sparkassenverlag GmbH, Stuttgart LBBW Immobilien GmbH, Stuttgart (Chairman)

* Representatives of the employees

The Supervisory Board can establish committees from among its members and set the tasks and authority for these committees. The authority of the Supervisory Board to make decisions can also be delegated to committees, to the extent permitted by law.

The shareholders meeting takes place in the first eight months of the fiscal year in Düsseldorf or at the location of another German stock exchange where the stock of the Company is admitted to trading. Each share grants one vote.

Members of the Management Board

The Management Board according to the Articles of Association of the Issuer consists of at least two members; aside from this, the Supervisory Board determines the number of members of the Management Board. At the present time, the members of the Management Board are:

Andreas **Schmitz** Banker, Willich Spokesman	
Mandates in supervisory boards:	Börse Düsseldorf AG, Düsseldorf (Chairman)
Mandates in control bodies which are comparable to the supervisory board:	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf L-Bank, Karlsruhe Liquiditäts-Konsortialbank, Frankfurt/Main (Likobank) KfW-Bankengruppe, Frankfurt/Main
Paul **Hagen** Banker, Düsseldorf	
Mandates in supervisory boards:	HFI Hansische Vermögensverwaltungs AG,

	Hamburg (Chairman) RWE Supply & Trading GmbH, Essen
Mandates in control bodies which are comparable to the supervisory board:	Bankaus Wölbern & Co. (AG & Co. KG), Hamburg HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Vice-Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg HSBC Transaction Services GmbH, Düsseldorf (Vice-Chairman) SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH
Dr. Olaf **Huth** Banker, Wermelskirchen	
Mandates in control bodies which are comparable to the supervisory boards:	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg (Vice-Chairman) HSBC Trinkaus Real Estate GmbH, Düsseldorf (Vice-Chairman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Manfred **Krause** Banker, Kempen	
Carola Gräfin **von Schmettow** Banker, Düsseldorf	
Mandates in control bodies which are comparable to the supervisory board:	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf (Chairwoman) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg HSBC Trinkaus Investment Managers SA, Luxembourg (Chairwoman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chairwoman)

The Issuer is represented under statute by two members of the Management Board or by a member of the Management Board acting jointly with an authorised representative (*Prokurist*). Various members of the Management Board have functions in supervisory boards and advisory boards of subsidiaries and have mandates in supervisory boards and advisory boards in companies outside of the corporate group within the scope permissible under the applicable statutory provisions. All members of the Management Board can be reached under the business address of the Issuer, Königsallee 21/23, 40212 Düsseldorf.

Potential Conflicts of Interests of Management and Supervisory Bodies as well as Senior Management

Pursuant to the provisions in the Corporate Governance Code of the Issuer, the members of the Management Board as well as the Supervisory Board are each required to personally disclose potential conflicts of interests. Such disclosure obligations exist for the members of senior management under the Compliance Guidelines of the Issuer.

The compliance with the Corporate Governance Code, including any potential conflicts of interest, is discussed annually in a joint meeting of the Supervisory Board and the Management Board. The Compliance Officer of the Issuer is responsible for monitoring situations in which potential conflicts of interest with the Issuer can arise under the Corporate Governance Code and the Compliance Guidelines. There are no potential conflicts of interest between the obligations of the members of the Supervisory Board, the Management Board and the members of senior management of the Issuer with regard to the Issuer and their private interests or other obligations.

Major Shareholders

Shareholdings

The share capital of the Issuer is currently € 75,384,617.25; it is divided into 28,107,693 bearer shares which are fully paid in.

HSBC Germany Holdings GmbH holds a direct participation in the share capital of the Issuer of 80.44%, and the Landesbank Baden Württemberg, Stuttgart, indirectly holds a participation of 18.86% through its 100% intermediate holding company, LBBW Banken-Holding GmbH. The sole shareholder in HSBC Germany Holdings GmbH is HSBC Bank plc, London, which conducts the operative banking business in Great Britain. HSBC Bank plc, in turn, is a 100% subsidiary of HSBC Holdings plc with its registered office in London. Thus, the Issuer is a directly dependent enterprise of HSBC Germany Holdings GmbH and an indirectly dependent enterprise of HSBC Holdings plc within the meaning of § 17 AktG.

There is no domination or profit and loss transfer agreement between the Issuer and HSBC Germany Holdings GmbH, Düsseldorf, or HSBC Bank plc, London, or HSBC Holdings plc, London.

15,507,693 shares in the share capital of the Issuer are admitted to trading and listed on the regulated market of the stock exchanges in Düsseldorf and Stuttgart. 12,600,000 shares held by the HSBC Group are not listed on the exchange.

Agreements with regard to possible Changes of Control

The Issuer is not aware of any agreements, the exercise of which could subsequently lead to a change in the control of the Issuer.

Financial Information concerning the Assets and Liabilities, Financial Position and Profits and Losses of the Issuer (Annex XI Tz. 11)

Historical Financial Information

On this point, see Annex A annual financial statements and management report 2010 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2010 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2009 (consolidated financial statements pursuant to IFRS) in which the historical financial information for the fiscal years 2009 and 2010 of the Issuer are stated.

Annual Financial Statements

In this regard, see Annex A annual financial statements and management report 2010 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2010 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2009 (consolidated financial statements pursuant to IFRS) which contain the consolidated balance sheet, the consolidated profit and loss statement, the consolidated statement of changes in the equity capital, the consolidated cash-flow statement and the explanatory notes.

Auditing of the Historical Annual Financial Information

Statement on the audit of the historical annual financial information

The annual financial statements as of 31 December 2010 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as the consolidated financial statements for the years 2010 and 2009 were certified by the auditor without any qualifications.

Statement of other information in the Registration Document which was audited by the auditor

Further information contained in this Registration Document has not been reviewed by the auditors.

Other financial data

Finance information, which are not extracted from the audited annual report is not contained in this Registration Document.

Age of the latest Financial Information

The last audited financial information is not older than 18 months after the date of this Registration Document.

Interim and other Financial Information

Interim report (unaudited and not reviewed by the auditor)

In this regard, see Annex D interim report of the HSBC Trinkaus & Burkhardt Group as of 31 March 2011. The interim report of the Issuer has been neither audited nor reviewed by the auditor.

Legal and Arbitration Proceedings

No governmental interventions, legal proceedings or arbitration proceedings involving the Issuer have been pending in the last 12 months prior to or at the time of the preparation of this Registration Document. At the present time, no such proceedings are pending or, to the knowledge of the Issuer, threatened which could have a significant effect on the financial position or the profitability of the Issuer and/or the Group.

Significant Change in the Issuer's Financial Position

Since the end of the last financial period for which the interim report of the HSBC Trinkaus & Burkhardt Group as of 31 March 2011 was published, there have been no material changes in the financial position or the trading position of the HSBC Trinkaus & Burkhardt Group.

Material Contracts

No material contracts are known which were concluded outside of the normal course of business and could lead to any member of the Group having an obligation or a right which would be of material importance for the ability of the Issuer to comply with its obligations towards the holders of securities issued by the Issuer with regard to such issued securities.

Third Party Information and Statement by Experts and Declarations of any Interest

Declarations or Reports by Experts

No declarations or reports by experts are contained in this Registration Document.

Statements by Third Parties

Statements by the rating agency Fitch Ratings Ltd. have been incorporated into this Registration Document. These statements are correctly reproduced. The Issuer is not aware and can also not discern from the information published by Fitch Ratings Ltd. that facts have been omitted which would render the reproduced information incorrect or misleading. The Issuer has directly received the information from Fitch Ratings Ltd.

DOCUMENTS ON DISPLAY

The following documents, or copies thereof, will be available for physical inspection during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays), free of charge, during the life of this Registration Document* at the registered office of HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf, Federal Republic of Germany:

(a) This Registration Document and any supplement to a prospectus which incorporates this document, where any such supplement relates to the content of this document;

(b) the Articles of Association of the Issuer;

(c) the historical financial information of the Issuer and its subsidiaries for both previous fiscal years prior to the publication of this Registration Document (consolidated financial statements 2010 according to IFRS, individual financial statements 2010 according to the German Commercial Code (*Handelsgesetzbuch*), consolidated financial statements 2009 according to IFRS), as well as the interim report as of 31 March 2011 which was not subject to an audit and was also not reviewed by an auditor; and

(d) current financial reports as well as current interims reports and semi-annual reports of the Issuer.

During the validity of this Registration Document, copies of the Registration Document may be inspected and obtained during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, D-40212 Düsseldorf, Federal Republic of Germany and copies of the Registration Document may also be inspected and obtained on HSBC Trinkaus & Burkhardt AG 's website www.hsbc-zertifikate.de and copies of the Articles of Association and the historical financial information may also be inspected and obtained on HSBC Trinkaus & Burkhardt AG 's website www.hsbctrinkaus.de.

* This document is valid for the period of twelve month from the date of its publication and is to be read and construed with any supplement to a prospectus which incorporates this document, where any such supplement relates to the content of this document.

Contents of the Annexes

ANNEX A

The Annual Financial Statements and Management Report 2010 (individual financial statements)

The Annual Financial Statements and Management Report 2010 (individual financial statements) are reproduced on the following pages and separately paginated (92 pages, from page A - 2 through page A - 93).

Annual Financial Statements and Management Report 2010

HSBC Trinkaus

Annual Financial Statements and Management Report 2010

HSBC Trinkaus & Burkhardt AG

Date of issue: April 2011

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Group Management Report

Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 17 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) S.A. Luxembourg	HSBC Global Asset Management (Deutschland) GmbH Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers S.A. Luxembourg	HSBC Global Asset Management (Austria) GmbH Vienna	Joachim Hecker Grundbesitz KG Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	HSBC Global Asset Management (Switzerland) AG Zurich	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Real Estate GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	
HSBC Transaction Services GmbH Düsseldorf	Trinkaus Private Equity Management GmbH Düsseldorf	

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Finally, companies acting as the managing partners of closed-end property funds and of private equity funds also form part of the Group.

The Group is managed as a single entity by the Management Board of HSBC Trinkaus & Burkhardt AG. Supervision of executives managing Group subsidiaries is carried out as a rule by the relevant Supervisory Board, Board of Directors and Advisory Board. Notwithstanding their independent legal status, all companies are managed within the framework of an overall strategy.

In accordance with section 312 of the German Stock Corporation Act (AktG) the Management Board drafted a report on relations with affiliated companies for the 2010 financial year.

This report concludes with the following final statement: “The Bank received adequate consideration for every legal transaction that was listed in the report on relations with affiliated companies. This assessment is based on the circumstances that were known to us at the time the reportable cases occurred. No measures were taken or failed to be taken to the disadvantage of the Bank, neither at the instigation nor in the interests of HSBC Holdings or a company affiliated with HSBC Holdings plc.”

Constitution of the company

In accordance with the Articles of Association, the Management Board of the Bank must consist of at least two members. However, the Supervisory Board may appoint additional members of the Management Board in excess of this number. The Management Board currently consists of four persons.

The members of the Management Board are appointed and dismissed in accordance with the legal provisions of section 84 German Stock Corporation Act (AktG).

Resolutions to amend the Articles of Association are passed by the Annual General Meeting with two thirds of the share capital represented upon adoption of the resolution, provided no greater majority is required by law. The Supervisory Board is authorised to amend the Articles of Association insofar as such amendments merely relate to the wording.

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in section 119 German Stock Corporation Act (AktG). Information on the Management Board's current authorisation to issue shares can be found in the Notes.

In accordance with the resolution passed by the Annual General Meeting on 8 June 2010, the Management Board has the right to buy and sell its own shares for the purpose of securities trading, but only at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10 %. The number of shares bought for this purpose may not amount to more than 5 % of the company's share capital at the end of each day. This authorisation is valid until 7 June 2015.

The company has entered into no significant agreements which are subject to a change in the control of the company as a result of a takeover bid. The company has also not concluded any compensation agreements with employees or members of the Management Board in the event of a takeover bid.

Basic features of the compensation system for the Executive Bodies

The compensation of the members of the Management Board is laid down in contracts of employment which the Bank, represented by the Supervisory Board's Personnel Committee, concludes individually with the various Management Board members.

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both.

As in previous years, the performance-related components for 2010 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013. A third of the shares of HSBC Holdings plc allocated as variable compensation for the 2010 financial year will be transferred to three Management Board Members in each of the next three financial years, i.e. from 2012 to 2014. For one Management Board Member a third of the so-called Long Term Incentive of the variable compensation for 2010 will be paid in each of the following three years, 2012, 2013 and 2014; half of each of these three tranches will be paid in cash and the other half in shares of HSBC Holdings plc, for which a further holding period of six months is stipulated.

Price risks and opportunities arising from the shares allocated in the period up until transfer lie exclusively with the respective Management Board members.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2010 financial year can be found in the Notes.

The Annual General Meeting decided with the required three-quarters majority on 5 June 2007 that the individual emoluments of the members of the Management Board are not to be published.

The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of €25,000 plus variable compensation of €100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the deputy chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a Committee receive one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he / she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a Committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of members of the Supervisory Board in the 2010 financial year is reported in the Notes.

The Business Divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are assisted by Dr. Christiane Lindenschmidt (from 1 January 2011), Dr. Rudolf Apenbrink (from 1 January 2011), Mr. Florian Fautz and Mr. Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)

HSBC Liaison
Company Secretariat
Compliance/Money Laundering
Strategic Planning
Corporate Communications
Audit Department and
Data Protection

Central Functions B

Paul Hagen
Management Board

Human Resources
Accounting
Controlling
Market Risk Control
Operational Risk and
Internal Controls

Division I

Dr. Olaf Huth
Management Board

Private Banking

Division II

Andreas Schmitz
Management Board

Syndicate/Issuing Business

Florian Fautz
Executive Committee

Investment Banking

Manfred Krause
Executive Committee

Corporate Banking
Foreign business

Division III

Carola Gräfin v. Schmettow
Management Board

Institutional Clients

Dr. Rudolf Apenbrink
Executive Committee

Asset Management

Division IV

Carola Gräfin v. Schmettow
Management Board

Global Markets

Division V

Paul Hagen
Management Board

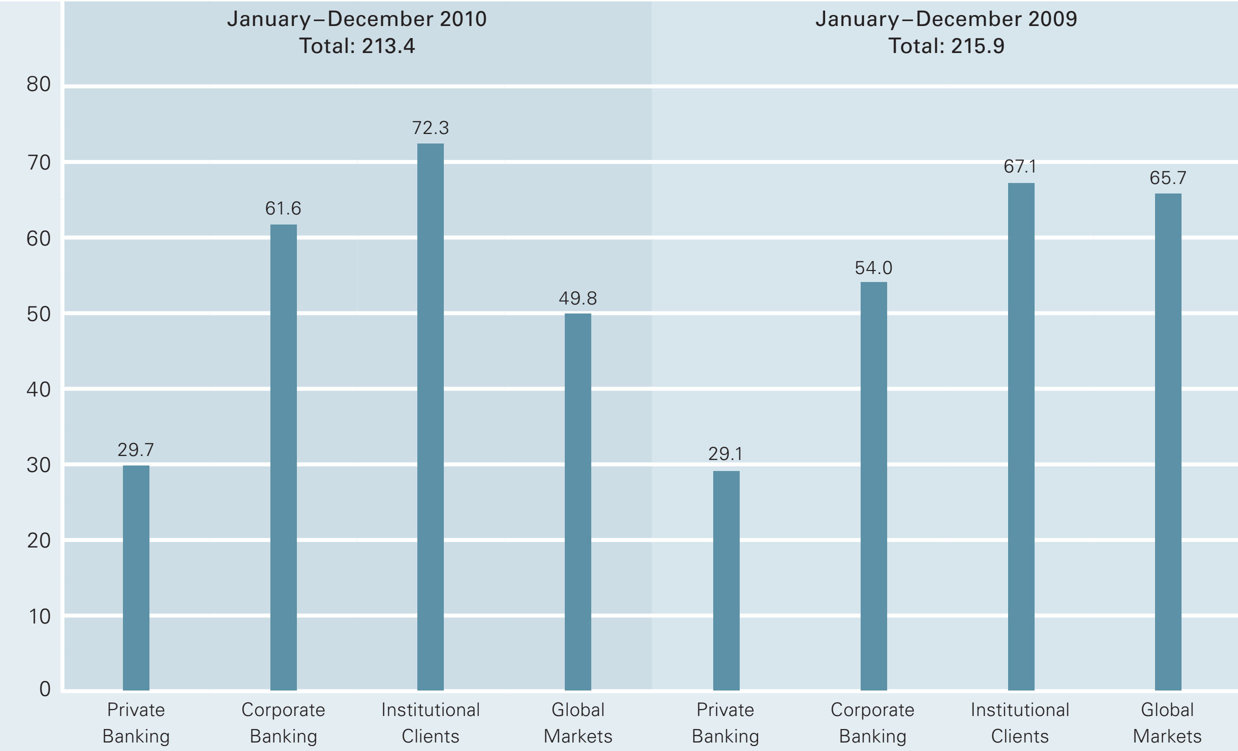
Credit
Securities
Services

Dr. Christiane Lindenschmidt
Executive Committee

Technology and Services

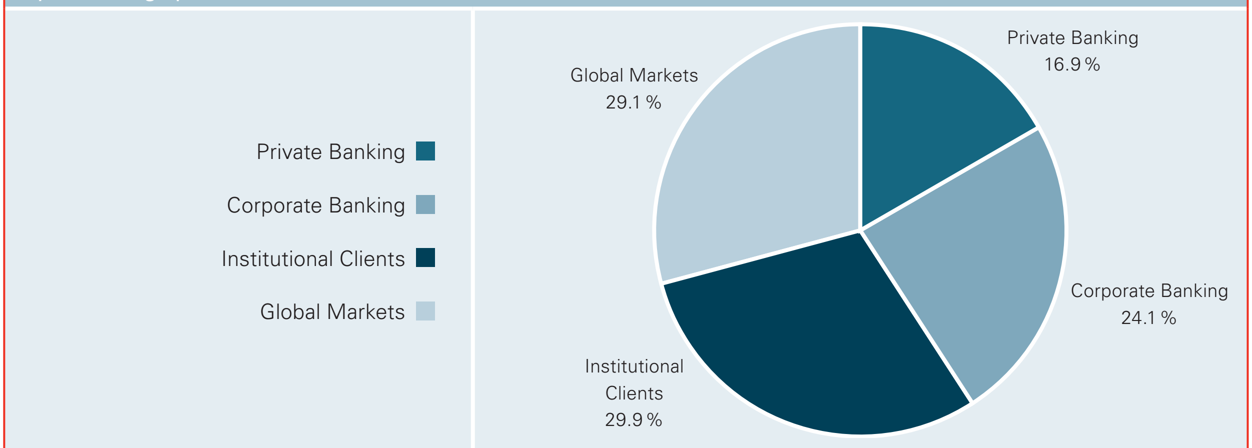
Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit in €m



After allowing for a total of € 6.9 million for head office functions during 2010, as against € – 19.5 million for 2009, the 2010 operating profit was € 220.3 million (2009: € 196.4 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions



Strategic Direction

General economic setting

The financial crisis continued to dominate financial market and economic events in the year of our 225th anniversary. Against all hopes, the crisis has not yet become part of economic history, but continues to spread unfailingly to new areas. What started as a subprime crisis went on to force several banks to file for bankruptcy and lead others to the brink of disaster, to then usher in the deepest recession since 1929. It is leading at present to a government debt crisis which has now also reached public finances, the innermost defence wall of our national economies.

In this environment, Germany's astonishing economic recovery appears to be like a "German miracle". According to the latest figures, the 3.5 % real growth in 2010 was the strongest recorded since German reunification. The number of registered unemployed fell below the 3 million mark and the number of gainfully employed persons increased to over 41 million. Thanks to the robust internal financing of German industry the credit crunch which had been feared failed to materialise. Even the banks are in a better position today than at the beginning of last year with the burdens on credit books remaining far below the expectations thanks to the rapid recovery of the real economy.

While internal affairs are comparatively favourable, Germany sees itself as being confronted abroad with a government debt crisis in Europe. As was the case with the subprime crisis, the dimensions of this crisis are by no means yet reliably measurable. This applies to Europe just as much as to the euro and to Germany. The loss of confidence in the euro and in the financial policy of the euro countries led to the eurozone crisis. As a result, the call is growing louder that the credit standing of the still financially strong countries in the eurozone be diluted via the issue of a Eurobond and brought down the level of the weak countries – with unforeseeable consequences for Germany.

Economic growth in Germany in 2010 appears to be only a temporary phenomenon. Growth will slow down not only in Germany but also worldwide as the circle of growth drivers is limited to only a few foreign markets, led by China and Brazil. The impact of the expansionary monetary policy will weaken and no end to the serious debt problem, in particular in the USA, is in sight. On the other hand, the significance of the Asia-Pacific region will grow further and global wealth will be redistributed. While attention is focused on China, the other emerging markets such as Brazil, India, Indonesia and Vietnam are also to be pointed out. Their key data – 80 % of the world's population, 50 % of global value creation, 40 % of global consumption, two-thirds of the world's growth, but only 15 % of market capitalisation – make it clear what a shift in economic output to these regions is to be expected.

While a new trouble spot has been revealed with the government debt crisis, the cleaning-up operation in the financial sector got under way last year. After the major loss of confidence accompanying the financial crisis, regaining the confidence of its customers and shareholders, but also of the political system and the regulatory authorities, is decisive for the sector. This crisis has given us the chance to learn the right lessons, develop improved standards in the banks and better rules for the financial markets. The financial market crisis revealed fundamental weaknesses in the financial system that have to be removed by introducing better regulatory standards and clearer playing rules for the financial markets. An internationally uniform approach is a precondition here if the German banking market, which is at any rate below average in terms of profitability in an international comparison, does not want to lose even further competitive strength. However necessary it is to make significant adjustments to the rules, balanced regulation with a sense of proportion is required in order that overregulation of the financial markets does not stand in the way of a sector recovery. The ability to create equity capital may not be burdened in particular. A decline in lending and therefore the restriction of the real economy in an upswing is to be avoided.

However, beyond the necessary government regulation and independent measures taken by the banks, the following still applies: the key to the success of a bank and a functioning financial market overall lies in consistent business models which focus on the customers and enable long-term economic success based on proven values. The financial crisis has revealed quite clearly here market participants without a sustainable business model who have in the end become a burden for the financial system and the taxpayer. The end to the distortion of normal trading conditions, which the European Commission is pushing for among other things, will lead to a major change in the German banking landscape.

HSBC Trinkaus' orientation in the current environment

HSBC Trinkaus proved again in the 2010 financial year that the unique combination of its business model is convincing even in times of crisis. This was underlined by the record result reported in its anniversary year. Having been founded in 1785, the Bank stands today, four revolutions, half a dozen wars, six different currencies, eleven different state systems and regimes as well as various changes of ownership later, on extremely solid foundations. And even the recent crises have not changed this. In contrast to many other banks, we have succeeded in coming out of the financial crisis in a stronger position. The fact that the rating has been unchanged since the end of 2007 is proof of this – with a long-term "AA" issuer rating, HSBC Trinkaus still has the best Fitch rating among the German private banks.

We want to remain successful in the challenging market environment through consistent orientation to clearly defined target groups and pronounced risk awareness in 2011 as well. Our success remains based on:

- our stable base of values such as trust, honesty, sense of duty and responsibility
- our strong capital base, also with respect to future regulatory requirements
- our earnings power, which has been above average for years also in relation to the competition
- our long-standing and motivated staff
- our products and services which meet with our customers' satisfaction
- our close cooperation with the HSBC Group

The secret to becoming 225 years old as a bank lies among other things in always remaining true to yourself. The fact that we can rely on a stable and reliable shareholder, HSBC, contributes to our unique position in the market. The close cooperation with the HSBC Group means that we are one of the few competent addresses for international business in the German market for more and more clients. With the "Growing on Strength" programme launched last year, we are consistently pursuing the goal of positioning ourselves as one of the three leading banks for internationally oriented corporate clients. We are using the global network of the HSBC Group even more intensively for this. HSBC Trinkaus takes a particular interest in using the connections between the individual country units of the HSBC Group to the benefit of our customers, seeing ourselves as a pioneer in global exchange in view of Germany's status as a leading export nation.

Our growth efforts are being supported by the HSBC Group's assessment that it is represented by HSBC Trinkaus in a strategically important core country, the significance of which for HSBC is expected to grow even further. In concrete terms it is expected to lead to a significant increase in the German contribution to the HSBC Group's pre-tax profit in the medium term. We want to realise this with organic growth, but as a basic principle also by acquiring assets. We regularly examine the steadily growing number of possible addresses in the market in order to make selective acquisitions. These considerations are based on our strict requirements of sustainable and profitable investments.

The international network of the HSBC Group is not only a competitive advantage which we use in the client business, but also a valuable asset in the competition for good employees. We actively promote sending our employees on work placements within the HSBC Group. Our staff members benefit here not only from the professional training, but also from the cultural diversity which the Group offers. This is a fundamental component of HSBC's corporate culture and at the same time one of the main strengths of the "world's local bank". HSBC's Diversity & Inclusion programme, which supports diversity and equal opportunities in the company and promots the integration and appreciation of our employees, is expected to expand this advantage further. Diversity & Inclusion has been declared a management responsibility. HSBC Trinkaus is energetically supporting this programme as an expression of contemporary company management and a humane working environment.

Overview of our strategy

Our strategy is characterised by continuity and is based on the following six points:

- We concentrate on the target groups of high net worth private clients, corporate clients and institutional clients and we aim to expand our activities with existing and new clients in these segments, provided there is a balanced risk/earnings profile.

- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our existing and new clients from our target groups. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing them.

- Our trading activities serve primarily to support the client segments and provide a comprehensive product offer. When determining risk limits and trading strategies, the focus is always on the Bank's risk-bearing capacity.

- Innovative and client-related solutions are our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. The basis of every good client relationship is nonetheless the careful, flexible and service-oriented execution of standard transactions and is therefore of major importance to us.

- We are constantly expanding our service offer in the securities business for clients and for other financial institutions. With our two securities settlement and fund administration subsidiaries – HSBC Transaction Services GmbH and Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) – we offer highly-qualified services at competitive prices. Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank and global custody services as well as in asset management with the HSBC Global Asset Management units.

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the range of powerful products and the respective regional networks in 87 countries.

The success of this strategy depends on whether we manage to satisfy the following conditions in future as well:

- We must offer our clients unlimited access to the global HSBC network, without having to make compromises in terms of their requirement of individualised servicing on a private bank level.

- We must continue to focus the business relationships with our clients on trust and sustainability. Only on this basis client and advisor can work together to find optimum solutions against the backdrop of a growing variety of products.

- We must provide a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value-added chain so that we can offer our services at a competitive price and in a client-friendly manner.

- We must invest in the qualification of our employees through targeted training measures in order to do justice to the growing complexity and internationalisation of our business.

- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

The long-standing and successful business relationships with our customers as well as their positive feedback, not least in our anniversary year, have strengthened our conviction that we are on the right track. In the spirit of our long-standing tradition, we remain committed to our values; future needs tradition.

The 2010 Financial Year

General economic setting

After the hefty recession in 2009, the global economy returned to its growth path in 2010, propelled by strong growth in the emerging markets. One of the main beneficiaries of this trend was Germany, which generated GDP growth of 3.6 % in 2010. The upswing in Germany was driven not only by the export sector, but also increasingly by domestic demand. Gainful employment, which rose to a new record high over the course of the year, contributed to this among other things. Overall the German economy therefore grew at a faster pace than the entire Eurozone, but also than the USA. The upswing in the Eurozone was dampened by the crisis in the peripheral countries. Although rising commodity prices saw to a global increase in inflationary pressure over the course of the year, the impact on consumers in the developed economies was weaker. In Germany price inflation averaged 1.1 % in 2010.

In an environment of low inflationary risks and moderate growth, the ECB left the key interest rate unchanged at 1.0 %. Owing to refinancing problems at several banks in the Eurozone, the ECB also continued to provide the banking system with unlimited liquidity. In order to prevent the government debt crisis in the Eurozone from getting out of hand, the central bank also bought government bonds. The US central bank left the Fed Funds Rate unchanged at 0 % to 0.25 % and at the end of the year even set up another comprehensive programme (volume: $ 600 billion) to acquire government bonds up to June 2011.

Low central bank rates and surplus liquidity saw to a good performance on many stock markets: the DAX rose by around 16 % over the course of the year and the S&P 500 by 15 %. The broad European market was not able to match this performance. Bundesanleihen benefited from their role as a safe haven in 2010. The yield on ten-year government bonds reached a new historical low of 2.1 %, but rose notably again at the end of the year. Owing to the government debt crisis the euro fell against the US dollar to below $ 1.20 over the course of the year, although it then ended the year at around $ 1.34.

Profitability

With an operating profit of € 220.3 million according to IFRS HSBC Trinkaus Group generated the strongest result in the Bank's history in the year under report. The good result of Group parent company HSBC Trinkaus & Burkhardt AG significantly contributed to this achievement.

The new provisions of the German Accounting Law Modernisation Act (BilMoG) were implemented for the first time in the 2010 annual financial statements. The prior-year figures have been adjusted accordingly.

HSBC Trinkaus & Burkhardt AG's profit on ordinary activities pursuant to German Commercial Code rose by 8.0 % or € 14.5 million to the present figure of € 195.2 million. Net profit for the year after taxes came to € 134.3 million and is thus 6.7 % or € 8.4 million higher than the prior-year figure of € 125.9 million.

We expanded our proven business model in 2010. By focusing on our clearly defined target client groups and their requirements, we were able to make further advances in all client segments. As expected, Global Markets was not able to repeat the strong prior-year result as the Treasury activities benefited strongly, especially in the first half of 2009, from the crisis-induced distortions and the impact of the ECB interest rate cuts. The continuing speculation over the credit standing of individual Eurozone member states put hardly any pressure on our income from financial assets as we are only exposed to those countries with manageable bond holdings in the bank book.

The individual items of the income statement developed as follows:

Net interest income increased slightly, i.e. by € 6.1 million or 5.3 % to € 122.5 million. As a result of the expansionary monetary policy pursued by the European Central Bank money market rates in euro were at an historically low level and we were therefore able to benefit from our high level of customer deposits only to a relatively minor extent. On the lending side, although margins were better than in the previous year, there was a slight decline again here. The much-feared credit squeeze failed to materialise. On the contrary, we found that the credit lines granted by the Bank were clearly underused owing to the strong internal financing of German companies. This shows how much the upper MME segment and large German corporations, in other words our target clients in the corporate banking business, have improved their financial situation in recent years. Nevertheless, it can be observed that this does not apply equally to all companies and that some are therefore still having to battle strongly with the repercussions of the economic crisis. Interest income attributable to trading activities including the corresponding funding expense is included in net trading income. A net interest income figure of between 20 % and 25 % of total operating income corresponds to our business model, which is traditionally based on a very high percentage of net fee income.

Current income from equities and other non-interest-bearing securities declined by € 11.7 million to € 7.2 million. This is mainly attributable to the modified way in which income from fund assets is recorded in accordance with BilMoG. The fund assets consist mainly of investment units, the income from which had to be offset for the first time against pension interest costs and had to be reported under the net interest result. Dividends on shares in the trading book form part of net trading income. Current income from shares in affiliated companies was also down. First of all, Dr. Helfer Verwaltungsgebäude Luxemburg KG was merged with HSBC Trinkaus & Burkhardt AG in the year under report; secondly, Grundstücksgesellschaft Trinkausstraße KG reported a loss in the year under report due to non-recurring maintenance work after generating a profit of € 1.1 million in the previous year.

Net income from profit transfer agreements rose by €20.9 million or 78.6 % to €47.5 million. This increase was mainly attributable to HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH at a figure of € 19.1 million (previous year €8.2 million) and HSBC Global Asset Management (Deutschland) GmbH with a result of € 26.2 million (previous year € 15.5 million). The HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH benefited from a higher payout by HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg and a higher profit transfer by Internationale Kapitalanlagegesellschaft mbH, Düsseldorf.

There was a significant increase in net fee income of €39.8 million or 19.5 % to €243.7 million. The fact that we were able to improve almost all components is particularly favourable. The main developments were as follows:

- We benefited in particular from several large equity capital market transactions for listed German companies in the year under report which led to extraordinarily high net fee income in Investment Banking of €34.2 million. On the other hand, there was a slight decline in the issuing and structuring business as the very high volume of new issues on the bond market the previous year could not be repeated. We underlined our claim of being able to offer the entire range of potential solutions in the capital market business for our institutional and corporate clients. Our fee-based business remains focused on all services in the traditional securities business. In particular, we were able to substantially exceed the good pre-year result in Asset Management including the depositary bank business, whereas transaction income was down.

- In the fee-based business with foreign exchange and derivatives we were able to increase net fee income with respect to derivatives on both interest rates and equities. This was due not least to even stronger co-operation with various companies of the HSBC Group which mainly take the risks involved with these transactions directly onto their own books and therefore contribute to competitive pricing. There was a particularly strong increase in the foreign exchange business, although margins in traditional forex trading remain very narrow on account of the electronic trading platforms. The risks are largely entered directly in the books of other HSBC units here as well.

- Results also improved in traditional services in the foreign and lending business. Not least the first successes of our growth initiative, which is aimed above all at expanding our market share in the corporate banking business, are already visible here.

- Alternative investments have increasingly established themselves as their own asset category for our sophisticated clients. Above all institutional investors, but also to a lesser extent corporate clients and high net worth private clients appreciate the diversification effect of these products. By offering more and more optimised solutions, we provide our clients with a one-stop access to various products in this asset category.

Net income from the trading portfolio fell by €4.0 million or 3.7 % to €102.1 million. It must be considered that one-tenth of net income from the trading portfolio had to be allocated to the fund for general banking risks for the first time, in accordance with section 340e (4) of the German Commercial Code (HGB). This resulted in a charge of €12.5 million in the year under report. Excluding this non-recurring effect, the trading result rose by €8.5 million as we were able to improve our performance in all trading divisions. The result from equity and equity/index derivative transactions was derived primarily from the issue and market-making of retail products. In this market we continue to attach the greatest importance to transparency and customer satisfaction as guarantors of sustained business. While Treasury was able to benefit from the crisis-related upheaval on the money market particularly in the first half of the previous year, the Treasury result in the year under report was substantially down, as expected, despite our continuing very good liquidity resources, but nevertheless reached a high level. By contrast, in our bond positions held for interest rate trading we were able to benefit substantially from the declining credit spreads. In the foreign exchange business and in business with coins, notes and precious metals we substantially exceeded the previous year's result. By contrast, the €4.1 million increase in expenditure on risk and valuation discounts caused earnings to drop; this increase is primarily attributable to the more detailed account taken of spread risks in our value-at-risk calculations.

General administrative expenses increased by €30.9 million or 10.5 % to €324.4 million. This trend is due essentially to our growth path, which requires not only an increase in the workforce and therefore also higher personnel expenses, but also considerably higher material expenses such as office costs, IT expenses, etc. Furthermore, performance-related remuneration increased parallel to the significant improvement in the overall result. In addition, the costs of a banking operation have been rising more than proportionately for years as a result of growing regulatory control as well as the constant transfer of new tasks stipulated by the government to the banks – relating in particular to tax collection. Depreciation, adjustments and amortisation on intangible assets and property, plant and equipment came to €9.3 million, up from €9.1 million in the previous year, and were thus roughly unchanged.

Other operating income rose by €3.7 million or 11.6 % to €36.0 million. This essentially comprises income from the provision of services to subsidiaries and income from the release of provisions. Other operating expenses rose by €1.1 million or 5.7 % to €20.0 million. This was attributable to higher provisions for legal risks, which were offset by lower expenses for placement risks in the property business.

In risk provisioning for the lending business we were able, on balance, to reduce expenditure substantially while at the same time generating, on balance, significantly lower net income from securities in the liquidity reserve; consequently, the result in cross-segment compensation remained virtually unchanged year on year with net expenses of €1.5 million, up from €1.3 million in the previous year. We were able to reduce net loan impairment and other credit risk provisions versus the previous year by €17.1 million or 66.6 % to €8.6 million. This was mainly attributable to the unexpectedly fast and pronounced improvement in the global economic situation, from which we benefited to a disproportionate extent in Germany with an unexpectedly strong economic recovery. This led to a €2.3 million reversal in collectively assigned impairments in the year under report after an addition of €12.1 million in the previous year. We also had to make lower additions to individually assigned impairments than in the previous year while reversals for individually assigned impairments were slightly below the pre-year level. The fears of a strain on the loan books of all banks that had emerged at the start of the year did not materialise in the year under report. On balance, income of €7.1 million was generated from securities included in the liquidity reserve whereas an income figure of €24.4 million was recorded in the previous year. This results, first of all, from the fact that the markets have calmed down further and that we were able to perform substantially fewer write-ups than in the previous year as a result. Secondly, we benefited from the fact that we stripped our portfolio early on of virtually all investments with a weak credit rating. Consequently, virtually no write-downs were necessary in the year under report, and thanks to our traditionally conservative valuation yardsticks we did not have to absorb any significant losses on the sale of equity interests. Our exposure to the countries in the Eurozone periphery which are under pressure is narrowly limited, and in some cases the maturities are very short.

In cross-segment compensation for income and losses from the sale of equity interests, write-downs predominated in the year under report whereas in the previous year write-ups were greater than write-downs. Expenses from the assumption of losses continued to rise, mainly due to the unsatisfactory performance of the property business.

Exceptional income and expenses, which resulted from the first-time application of BilMoG, came to € 1.0 million net.

With an increase of 9.3 % or €5.1 million to €59.8 million, tax expenditure underwent an only marginally stronger increase than profit from ordinary business activity. This works out to a tax rate of 30.8 %, up from 30.3 % in the previous year.

The Asset Situation

The 2010 annual financial statements implement the new provisions of the German Accounting Law Modernisation Act (BilMoG) for the first time. The prior-year figures have been adjusted accordingly.

At € 16.3 billion as of the balance sheet date, total assets were almost unchanged after € 16.0 billion in the previous year. There were no major changes to the structure of our balance sheet either. The consistency in total assets and balance sheet ratios shows that we did not have to change our business model, despite the financial market crisis, as it proved itself again in the balanced nature of the client segments combined with risk-aware proprietary trading. Instead, we were able to dedicate ourselves fully to implementing our growth initiative, in particular in the corporate banking business.

There was a significant decline on both the assets and liabilities side in loans and advances to banks and deposits by banks. This development is mainly reporting-date-related and largely concerns money market transactions with other HSBC units the previous year.

On the other hand, loans and advances to customers and customer accounts rose substantially. Customer deposits remain our most important source of refinancing. At €8.0 billion they accounted for around 49.2 % of total equity and liabilities on the balance sheet date. Given our still excellent liquidity position, we can make sure that each transaction is profitable and therefore completely refrain from offers with temporarily increased deposit interest. We show a stable deposit base in all business segments.

In addition, we also refinance our business, in particular our trading assets, from the structured products issued, above all promissory note loans, warrants and certificates, which we report under trading liabilities. On the balance sheet date they amounted to just less than €2.9 billion versus €2.6 billion the previous year, underlining our success in the hotly contested retail market for exchange-traded warrants and certificates. Trading liabilities also include the negative market value of the derivatives and are almost unchanged versus the previous year at €5.2 billion or 31.7 % of the balance sheet total. We refer to the section on our financial position for the increase in shareholders' equity.

The €0.3 billion increase in loans and advances to customers to €2.9 billion corresponds to our general guideline that we want to grow with our clients. We still see a great deal of growth potential here in particular as firstly, the credit lines granted to our clients were extremely underused alleged credit crunch and secondly, we are also planning significant new lending business within the scope of our growth strategy.

Trading assets rose slightly to €9.4 billion as of the balance sheet date after €8.8 billion the previous year. With a share of around 57.5 % and 54.8 % the previous year they represent the largest item on the assets side of our balance sheet. Bonds, which are mostly exchange traded and also eligible, account for almost half of trading assets. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. We further increased financial assets by €0.2 billion or 8.1 % to €2.3 billion. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion which we have continuously expanded. We have further reduced our already limited exposure to the peripheral states in the Eurozone in both trading and in financial assets.

The financial position

We increased our capital by €150.6 million in summer 2010 by issuing new shares at a ratio of 1 for 13 at a price of €75.00 per share. Furthermore, HSBC Trinkaus & Burkhardt AG transferred €60 million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 8 June 2010. Overall we have increased our shareholders' equity very considerably by €221.1 million or 25.1 % to €1.1 billion. At this year's Annual General Meeting on 7 June 2011 we will propose the payment of an unchanged dividend of €2.50 per share on the increased number of shares enabling a further allocation to retained earnings of €70.0 million from profit available for distribution.

As one of the consequences of the financial market crisis, the supervisory authorities worldwide are drastically tightening the capital requirements for banks. Firstly, more restrictive requirements for the recognition of liability equity capital are being defined. Secondly, higher minimum capital ratios in relation to the risks involved with the banking business are being introduced step by step. As our core capital already consists exclusively of subscribed capital and reserves today, we already fully meet the future requirements regarding the composition of core capital (core Tier I capital). By increasing capital and making allocations to retained earnings from profit available for distribution, we have made sure that we also already exceed by far the higher capital ratios applicable in future. This means that we are very well equipped for the coming supervisory changes with respect to the capital requirements for banks and also still have scope for business expansion or acquisitions.

Our risks-weighted assets in the lending business declined slightly by around 3.9 % to just less than €5.2 billion despite the growth in our credit book. This expresses both the improved ratings as a result of the significant economic recovery in Germany and the relative restraint of our clients in using the credit lines granted. On the other hand, the market risk equivalent rose by over 30 % to almost €1.1 billion. This increase is primarily the consequence of the change in the consideration of credit spread risk in our value at risk model for the trading book. The broadening of our revenue base is reflected in a 5.5 % higher obligation to provide capital backing for operational risk. Overall the regulatory risk position amounts to €7.2 billion and is therefore around €0.1 billion or 1.5 % higher compared to the previous year.

Following the payment of dividends this gives a Tier 1 ratio of 12.9 % and a total capital ratio of 18.2 %. This way above average capitalisation will provide our growth strategy with lasting support.

As a further lesson drawn from the financial market crisis, the regulatory authorities worldwide are drastically tightening the requirements for banks with respect to liquidity and the management of liquidity risk. We are already in a good position today in this respect as well. Firstly, with our strict liquidity risk management we already fulfil to the greatest possible extent the requirements of the Minimum Requirements for Risk Management (MaRisk) which were updated in December 2010 and extended significantly with respect to liquidity risk. Secondly, the substantial liquidity cushion we have already had for some time has been continuously expanded in recent years. We were therefore able to show growth in our liquidity cushion despite of the financial market crisis and a general shortage of liquidity. Further details of our management of risk in general and liquidity risk in particular can be found in the chapter "Risk Management".

Outlook for 2011

The economic upturn established in 2010 is expected to continue in 2011, with the emerging markets remaining the drivers of the global recovery. However, as the upswing has moved into a more mature phase, the growth momentum is likely to slow down. In the emerging markets in particular the tightening of monetary policy in reaction to the growing risk of inflation is acting as a drag. Since corresponding price risks cannot be discerned in the USA, the US central bank is leaving interest rates unchanged.

Of the countries in the Eurozone Germany remains the main beneficiary of the global economic recovery. The upswing is also being supported increasingly by internal forces. The stronger utilisation of capacities is forcing companies to make investments and the upswing on the labour market is supporting consumption. Overall we are expecting the economy to grow by 2.1 % in 2011 (2010: 3.6 %). For the entire Eurozone we are assuming GDP growth rates of just 1.7 % and 1.5 % for 2010/11. Rising commodities prices will lead to higher inflation in 2011. However, owing to the high unemployment in the Eurozone we are not anticipating lasting pressure on prices. Correspondingly there is no need for the ECB to raise interest rates in 2011. A lasting increase in yields at the long end of the yield curve need not be anticipated in this environment.

Thanks to the improved economic trend, the German banking system has been spared a tough performance test. Loan loss provisions turned out to be far lower than planned and took pressure off the banks' income statements. Nevertheless, the German banking sector is faced with major challenges with the implementation of higher capital requirements and tougher provisions with respect to maintaining liquidity.

These changes will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on the business with three clearly-defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than those banks which have strong investment banking activities, are dependent on proprietary trading and refinance themselves via the capital markets. Furthermore, the capital increase we carried out in summer 2010 has created scope for the expansion of our business also in the new regulatory environment.

We see our business strategy as confirmed by the current discussion. Since our overall client-focused orientation is not being questioned, HSBC Trinkaus' fundamental strategy will not be affected by the adjustments to the new regulations.

We therefore want to continue along the path embarked on last year and use 2011 and the years ahead to gain additional market share in all business segments. The focus is on the significant expansion of business with upper MME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

This expansion strategy is based on:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities
- the integration into the HSBC Group as one of the world's largest and most financially sound banking groups
- the Bank's strong capitalisation and good refinancing base

An expansion strategy means higher risks, but also greater opportunities. This applies in particular to the expansion of the lending portfolio with MME corporate clients. However, these risks appear to be manageable in the light of the positive trend in the German economy, even though we are expecting this growth momentum to slow down, not least due to the debt problems being experienced by several Western states as well as the inflationary tendencies in the emerging markets. The credit margins currently include more adequate risk premiums than in the past. Should other banks tend to withdraw from the credit business as a result of the higher capital requirements, we are confident that the margins will not deteriorate significantly and that we can grow in the market without lowering our credit standards.

The extremely low level of interest rates has already risen again in part and in view of higher inflation rates there is speculation over the European Central Bank tightening its monetary policy. Based on the cautious position-keeping in our financial assets, the trend towards higher interest rates which continued in January 2011 is not likely to have any major negative impact on the Bank's earnings situation, provided this trend does not accelerate unexpectedly.

There will be no significant growth in the overall volume of bank revenues in Germany in 2011 and 2012. We can therefore only increase our revenues in the years ahead by realising the targeted gain in market shares. Net interest income will play a more important role as net fee income will remain under pressure and we are planning to expand our credit volume.

Strict cost management is decisive in this situation. The increase in our administrative expenses is expected to slow down in the years ahead after rising significantly in 2010. We will make sure that the Bank's infrastructure remains strong in the long term by making sufficient investments. We are expecting our operating profit to reach the level of 2010, the best year in the Bank's 225-year history so far. This will require stronger revenues to balance out the increase in costs due among other things to the stricter regulatory requirements.

The precondition for this is that there is no major slump in share prices, perhaps as a result of distortions on account of government debt crises or a discussion over the future of the euro. Political tensions with destabilising developments could also trigger such a reaction. In addition, the pressure arising from credit risks is not likely to grow beyond the level of risk provisioning in 2010. We anticipate that the average credit rating of our portfolio will tend to improve in 2011 and see no increased credit risk at present, even in the event of the momentum of German exports slowing down. As our portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments, though. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast.

Our exposure to the euro states with particularly high debt levels is limited. We are therefore not expecting it to result in any significant burdens here, provided the stabilisation which is becoming evident as a result of the government rescue packages continues. In the event of the restructuring of government debt with bond creditors and loan creditors suffering losses, doubts over the stability of banks with a high exposure to these problem countries could develop into a systemic risk.

We still regard a target cost:income ratio ranging between 65 % and 70 % – in terms of operating profit – as adequate for our business model as a universal bank with a wide range of products. The ratio has remained stable within the target corridor in the past two years. We are again anticipating a ratio in the upper half of the corridor for the current financial year and also for 2012.

The targeted expansion of our market share is expected to be accompanied by increased revenues in all three client segments. We have already increased the number of employees in the Corporate Banking and Private Banking segments in order to realise these goals.

Through the opening of a new branch in Cologne we are expecting additional growth impetus in the business with high net worth private individuals for 2011 and the following years.

HSBC Trinkaus' collaboration with the globally-active HSBC Group gives the Bank a unique position in the Corporate Banking business. In recent years HSBC Trinkaus has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Our new expansion strategy, which also includes an extended service and product offer, such as factoring, will enable us to further increase our credibility as a reliable partner in the corporate banking business. We have already made allowance for the capital required for this in our strategy. The growth in our client base in recent years together with our expansion strategy gives us reason to believe that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The transition from the ECB's crisis-induced low interest rate policy to higher interest rates again will lead to friction. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. The expertise in product development offered by the entire HSBC Group is available to our clients. For example, we have direct access to the Group's global trading books which also enable large-volume transactions and risk assumption, thus offering added value.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. In addition, we benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is still far below the high volume seen in previous years and is limiting earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2010. The same applies to Treasury business.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration of our business processes into the HSBC Group. In order to avoid operational risk, we will further improve our internal control system, even if this is accompanied by financial burdens. However, it is obvious that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 12 % of risk-weighted assets enables the return-oriented expansion of our business. The capital increase carried out in summer 2010 has provided us with an advantageous starting base in the competition. We are carefully observing the effects of the regulatory changes already announced and still to be expected. If necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depositary bank activities. We do not rule out the acquisition of interesting client portfolios either if it serves to expand the Bank's client base.

The state intervention is not likely to lastingly distort competition in the banking market and therefore put pressure on market participants who responsibly carry out their business without government assistance. We therefore hope we will be able to pay our shareholders an appropriate dividend in the years ahead as well.

Risk Management

Definition

In accordance with German Accounting Standard No. 5 (DRS 5), we understand by the Risk Management System "a comprehensive set of control procedures covering all activities of an enterprise; these procedures are based on a defined risk strategy applying a systematic and consistent approach with the following components: identification, analysis, measurement, control, documentation and communication as well as the monitoring of these activities".

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively controlling it and systematically transforming it. We regard counterparty, market and liquidity risk, as well as operative and strategic risks as the principal risks of our banking business. Active risk control entails identifying the nature, amount and extent of any risk and structuring the risk in such a way that it not only conforms to the Group's capacity to carry risk, but also offers corresponding risk premium and return.

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. We can minimise operational risk if there is a reasonable balance between risk avoidance and the related costs. Furthermore, adequate insurance has been taken out. Avoiding risks to our reputation is one of the basic approaches with respect to our business policy. We avoid liquidity risk as far as possible and are also prepared to accept significantly lower profits as a consequence.

The extent of the Bank's overall risk is limited by the Management Board in consultation with the Supervisory Board. The appropriateness of taking on a given risk is also assessed in particular against the backdrop of the Group's capacity to assume risk on the one hand and the special risk management expertise in our core lines of business on the other. These principles continue to apply.

Since the beginning of the banking crisis and the collapse of the US investment bank Lehman Brothers, the old principle of "liquidity before profitability" has proven to be extremely valid in a market environment which has undergone drastic change. Issues relating to the Bank's liquidity position remain of the greatest priority for us. We have maintained our strong liquidity reserves and paid strict attention when investing the funds accruing in the money and capital to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds. The new banking supervisory requirements, which are currently being drawn up internationally, confirm our cautious stance.

The second central challenge facing our risk management was and is managing counterparty risk. The markets kept a very close eye on state solvency in 2010, focusing on several member states of the Eurozone. The need for the EU to set up a bailout programme for euro states prompted us to monitor and control our exposure to Eurozone states with a weaker credit standing even more intensively. We therefore significantly reduced our exposure to the so-called PIIGS states.

The impact of the economic downswing on corporate loans rapidly gained in significance in 2009. In the year under report this trend was reversed far more quickly and significantly than we had expected. We can observe easing in our credit portfolio which is also characterised very strongly by export-oriented companies. The net addition to net loan impairment and other credit risk provisions therefore turned out to be lower than we had expected.

Market risk management at HSBC Trinkaus passed its performance test in 2008 and 2009. The trend on the interest, equity and foreign exchange markets relevant for HSBC returned to relative normality in 2010, even though there are still further tensions in particular in the banking system. In trading with derivative equity products, we were able to expand our market share with almost the same volumes by quoting reliable prices for warrants and certificates at all times. The trading books for controlling throughout the Bank benefited mainly from credit spreads narrowing and low overnight money rates. The trend in 2010 has again confirmed that our value-at-risk model, into which we integrated credit spreads risks more strongly in the year under report, is calibrated conservatively.

Risk management – organisational structure

The organisation of risk management is uniform throughout the Group and includes all subsidiaries. The explanations on risk management thus always refer to the Group; the figures correspond to consolidated results pursuant to IFRS.

The following three committees play a central role within the Group's risk management organisation:

- the Credit Committee for counterparty risk
- the Asset and Liability Management Committee for market and liquidity risk
- the Operational Risks and Internal Controls Committee for operational risk including legal and reputational risks.

The internal audit department plays a major role in early risk detection. In its reports it highlights significant risks through the classification of its audit findings. In addition, it reports to the Management Board and the Audit Committee of the Supervisory Board based on follow-up examinations on the progress made with removing deficiencies ascertained.

This organisational structure ensures that risks are promptly identified and that suitable measures are taken in good time – also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks arise and can never be ruled out completely.

This is why short routes to the management, awareness of the risks entered into and the constant further development of risk management are decisive.

We are already preparing ourselves actively in particular for the new requirements relating to liquidity risk. With the capital increase concluded in July, we took account of the higher capital requirements in future, thus opening up additional scope for growth for our client business.

Strategic risk

By strategic risk we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. Strategic risk results primarily from the Bank's strategic orientation. HSBC Trinkaus is particularly exposed to such risks as there is strong competition for our clients in the market owing to their substantial significance.

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues is dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest-rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients in regional and product terms, can only counteract this risk to a limited extent. To a certain extent, we can also counteract this risk in a targeted way thanks to our strong integration into the HSBC Group through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

We are confident that HSBC Trinkaus' strategic position in Germany will not deteriorate, although several competitors in the German banking market have used government rescue packages to strengthen their capital base. The risk premiums for counterparty risk have increased in the market in general and are at present allowing more risk-adequate pricing of banking services than before, although this trend is already starting to wane again.

We have made no substantial progress with the further modernisation of our IT architecture since 2008 as capacities were tied up for the implementation of the flat-rate withholding tax and the requirements of additional regulatory controls. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the use of significant personnel and financial resources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further significant increase in costs for the Bank.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already repeated many times will be implemented that not more, but more effective regulation is required. The transfer of tasks stipulated by the government to the banks, such as money laundering control and tax collection, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to a substantial increase in fixed costs for the Bank irrespective of its earnings opportunities. In addition, the income statement will be burdened by the bank tax for the first time in 2011. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly. An increase in equity committed per transaction is foreseeable. In addition, the new liquidity provisions will tend to make refinancing more expensive. The structural and lasting decline in the return on equity at the same time will have a fundamental effect on all banks. HSBC Trinkaus is already actively preparing for the coming changes.

As a general principle, the continuous improvement of our efficiency is absolutely vital in order not to endanger the Bank's competitive situation.

On a positive note, the Bank's strategic orientation has proven itself in the crisis and we are confident that we will be able to gain market shares thanks to our consistent client orientation.

Counterparty risk

a) Organisation of the credit processes
Counterparty risk may be subdivided into credit and counterparty risk on the one hand and sovereign risk on the other. By counterparty risk we mean the risk of the partial or complete default by a business partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk.

The organisation of our credit department has been tailored to the size of the Bank's lending business and its target groups, thus enabling us to process and evaluate all counterparty risk in a professional and timely way.

Based on our clients' needs, before a loan is approved we examine the various options available for structuring a credit facility. These include, for example, syndications and loan securitisation using promissory note loans, or the issue of bonds.

We are guided by the principle of risk diversification: on the one hand we are careful to ensure that the borrower's risk of default is in proportion to its size and is shared with other banking institutions. On the other, we spread our credit risks widely across different industry sectors and counterparties.

We comply consistently with the minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin). In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

An authority ruling passed by the Management Board, which differentiates according to size and credit standing, regulates the authorisation process for loan commitments. The credit risk strategy coordinated with the Credit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to the current requirements on a regular basis.

The Bank uses a ten-stage rating system to classify the credit quality of its clients in the private banking business. The ten-stage internal ratings for high net worth private clients are based exclusively on a qualitative credit assessment by the analyst. However, the lending business in this client segment is of minor importance and is carried out on a collateralised basis as a rule.

A 23-stage rating system is used to classify the credit quality of our corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. These systems are constantly being improved in detail. The internal rating, the expert knowledge of the analysts and – where available – the collateral provided form the basis for the loan decision.

The rating system for the German SME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from his/her financial data. We developed this component with the help of internal client data. This is supplemented by an expert system which gives a qualitative evaluation of the customer and his/her economic environment. The rating system is completed by a set of rules for recognising liabilities within corporations. The selectivity of this statistical model has been proven on the basis of a large external database of German companies with very good results.

The rating systems for large international corporations, banks and financial service providers were adopted by the Bank from the HSBC Group after an internal inspection of their suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for the internationally oriented portfolios. All HSBC rating systems also include a qualitative evaluation of the company and its economic environment which is drawn up by the responsible customer service officer in Germany in collaboration with the local credit experts. This evaluation is supplemented by the statistical analysis of financial data and analysis of the sector and country risk.

The expected probability of default for each borrower can be derived from the rating categories. On this basis, we estimate the expected loss for the individual loan exposures taking security and other agreements into account. We set up net loan impairment and other credit risk provisions for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. Net loan impairment and other credit risk provisions fully cover the shortfall calculated in this way.

Each credit risk must be assessed and classified annually, or more frequently where the credit rating is lower and subjected to the approvals procedure. It is assessed whether the profitability of the client relationship is adequate in proportion to the risk assumed. We examine this also on a global basis for clients with relationships to other HSBC units.

Credit risk monitoring is conducted with the help of a risk limit system. It includes daily monitoring to make sure that approved lines of credit are not being exceeded.

In the case of non-performing, doubtful or problematic debts, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

Credit business is subject at regular intervals to internal auditing, both of counterparty risk and of working practices and methods.

Loans involving sovereign risk can only be granted within the framework of approved country limits. Loans to foreign borrowers always involve sovereign risk unless fully covered by domestic collateral. Loans to domestic borrowers may also involve sovereign risk if they are granted on the strength of foreign security, or if the borrower is largely dependent on a foreign shareholder.

The sovereign risks associated with counterparty risk are limited and monitored separately. Country limits are approved by the Management Board and the Credit Committee of the Supervisory Board and reviewed at least annually on the basis of political and economic analyses of the countries in question. In this context, the Bank makes use of the high-quality expertise available to it through HSBC's worldwide office network.

The adherence to country limits is monitored on a daily basis with the help of IR programmes. They also take risk transfers to or from other countries into consideration.

The Bank is deliberately reticent about direct foreign lending, except where the purpose is to assist its own local clients in their business dealings throughout the world. We are then in the position here to offer comprehensive solutions with the help of the local HSBC units.

b) Maximum default risk

Above all loans and advances, trading assets, financial assets as well as contingent liabilities and lending commitments can be affected by default risk. The risk of non-delivery can also arise in the settlement of payments transactions, foreign exchange trading as well as the securities services business. We pay greater attention to this risk despite the extremely short settlement periods.

The following table shows the Bank's theoretical maximum default risk as of the balance sheet date disregarding collateral received and other risk-reducing techniques. The maximum default risk can be quantified best by means of the gross book value of the financial assets including OTC derivatives. The netting provisions under IAS 32 as well as the impairments for financial investments under IAS 39 are taken into consideration in the gross book value. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees, the maximum default risk corresponds to the highest amount the Bank would have to pay in the event of a claim under the guarantee. The maximum default risk in respect of issued lending commitments, which cannot be revoked during their term or only in the event of a significant negative market change, is the full amount committed.

HSBC Trinkaus' maximum default risk according to this definition breaks down as follows as of the balance sheet date:

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Loans and advances	**4,492.5**	**19.9**	**5,116.9**	**22.6**
to banks	1,402.9	6.2	2,429.4	10.7
to customers	3,089.6	13.7	2,687.5	11.9
Trading assets	**9,737.9**	**43.1**	**9,551.4**	**42.2**
Bonds and other fixed-income securities	4,590.7	20.3	4,839.7	21.4
Equities and other non-fixed-income securities	1,004.4	4.4	832.4	3.7
Tradable receivables	2,334.8	10.3	1,917.2	8.5
OTC derivatives	1,439.5	6.4	1,542.9	6.8
Reverse repos/securities lending	72.3	0.3	72.6	0.3
Cash deposits	296.2	1.3	346.6	1.5
Financial assets	**3,305.9**	**14.6**	**3,126.1**	**13.8**
Bonds and other fixed-income securities	2,776.3	12.3	2,567.4	11.3
Equities	24.3	0.1	29.8	0.1
Investment certificates	100.1	0.4	145.3	0.6
Promissory note loans	293.6	1.3	277.3	1.2
Investments	111.6	0.5	106.3	0.5
Contingent liabilities	**1,305.4**	**5.8**	**1,569.2**	**6.9**
Loan commitments	**3,751.9**	**16.6**	**3,290.2**	**14.5**
Total	22,593.6	100.0	22,653.8	100.0

c) Collateral and other risk-reducing techniques

The provision of collateral is agreed in principle where necessary, for example with long-term financing or pure loans against securities. Netting agreements, where offsetting contracts with one customer can be netted against each other under certain conditions, are also concluded specifically in the derivatives business or agreements over guarantees for market values in the form of specific collateral. These agreements substantially reduce the theoretical maximum default risk represented above.

HSBC Trinkaus uses internally-developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is carried out in the line system.

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a program which links the key data of the guarantees to the account and securities account data. Standard loan-to-value ratios for various financial guarantees are predetermined for the valuation, from which the person responsible can deviate from if necessary by making decisions in individual cases (e.g. to avoid cluster risks). If no valuation is available for certain securities, then an individual decision is made with the help of a credit analyst as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are accepted only in exceptional cases. A valuation is carried out only if we receive account statements regularly and promptly from the third-party bank. Our aim is always that the financial guarantees are transferred to us.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract and the credit standing/rating of the guarantor. In contrast, physical collateral (assigned receivables and rights and transfers of title to objects as security) are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when carrying out the valuation, the legal status of the collateral agreement and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location, the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, an individual valuation mark-down is determined for each collateral provided.

Land charges should be within a loan-to-value ratio of 50 % (mainly commercial use) or 60 % (mainly residual use) of the lastingly achievable market value determined on the basis of recognised expert methods. For real estate, the market value is based on the net income value as a rule. If residential properties are used mainly privately, the real value can also be applied.

Government and private loan insurance and bank guarantees in particular are considered as collateral in the international business. They are valued at the amount guaranteed.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 5 years at the latest. If the loan secured by a charge on property exceeds the normal lending framework of 50 % or 60 % of the value of the property serving as collateral, an annual revaluation is required, though. As regards assignments and transfers of title as security, it is to be determined by the persons responsible how often and to what degree of detail corresponding proof of collateral is to be submitted by the customer.

The collateral value, if necessary allowing for upper limits (to avoid cluster risks), is automatically taken into consideration in the risk statement in respect of valued collateral. If the collateral requirement for a credit line has not been fulfilled, i.e. either no collateral has been allocated to the credit line in the system or the value of the collateral falls below the minimum value kept in the system, the line system reports that the credit line has been exceeded.

d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2010				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	1,402.9	3,001.3	1,299.0	3,741.7	9,444.9
Overdue, but not impaired	0.0	2.9	0.1	0.0	3.0
Individually impaired*	0.0	85.4	6.3	10.2	101.9
Total	1,402.9	3,089.6	1,305.4	3,751.9	9,549.8

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7
Overdue, but not impaired	0.0	0.6	0.5	0.0	1.1
Individually impaired*	0.0	80.4	6.2	7.9	94.5
Total	2,429.4	2,687.5	1,569.2	3,290.2	9,976.3

* Including the setting-up of credit risk provisions

Trading assets and financial assets (exclusively bonds)

The following overviews are based on the results of external rating agencies (as a rule Standard and Poor's). It is taken into consideration that external issue ratings are only available on a regular basis for bonds and other fixed-interest securities. Should different rating agencies arrive at differing valuations of the same financial assets, the lower value is reported.

in €m	31.12.2010			31.12.2009		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	2,136.7	1,209.0	3,345.7	1,959.7	1,064.9	3,024.6
AA+ to AA–	1,854.3	1,182.0	3,036.3	1,823.8	910.6	2,734.4
A+ to A–	403.3	193.4	596.7	734.5	320.6	1,055.1
BBB+ to BBB–	29.2	142.1	171.3	41.8	146.6	188.4
Lower than BBB–	14.8	26.0	40.8	1.8	18.4	20.2
No rating	152.4	23.8	176.2	278.1	106.3	384.4
Total	4,590.7	2,776.3	7,367.0	4,839.7	2,567.4	7,407.1

OTC derivatives

For an assessment of the credit quality of OTC derivatives, their market values are classified by counterparty below:

		31.12.2010		31.12.2009	
		in €m	in %	in €m	in %
OECD	Banks	1,077.8	74.8	1,130.0	73.5
	Financial institutions	135.1	9.4	228.4	14.8
	Other	222.5	15.5	179.1	11.6
Non-OECD	Banks	3.8	0.3	0.7	0.1
	Financial institutions	0.0	0.0	0.1	0.0
	Other	0.3	0.0	0.1	0.0
Total		1,439.5	100.0	1,538.4	100.0

e) Information on exposures which are neither overdue nor impaired

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the loan exposures can be mapped onto seven credit categories. Credit categories 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as of the balance sheet date was as follows:

in €m	31.12.2010				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	1,327.3	971.5	608.2	1,404.5	4,311.5
Credit categories 3–4	75.6	1,946.9	683.4	2,335.8	5,041.7
Credit category 5	0.0	82.9	7.4	1.4	91.7
Total	1,402.9	3,001.3	1,299.0	3,741.7	9,444.9

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	2,134.9	932.3	715.6	1,331.1	5,113.9
Credit categories 3–4	294.5	1,432.3	839.3	1,945.6	4,511.7
Credit category 5	0.0	241.9	7.6	5.6	255.1
Total	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7

As in the previous year, no restructuring of individual loan agreements was carried out.

f) Information on loans and advances which are overdue, but not impaired

The Bank's loans and advances which have not been impaired although overdue amounted to €2.9 million in the year under report (2009: €0.6 million) and are exclusively to customers. €2.4 million (2009: €0.1 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. The fair value of the collateral stood at €0.5 million in the year under report (2009: €0.1 million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full.

There are also overdue, but not impaired claims resulting from excess interest of €0.5 million (2009: €0.5 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was €0.5 million (2009: €0.5 million).

g) Information on exposures for which credit risk provisions have been set up

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as the substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, then we correct the probable recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by the person responsible. Problematic exposures, for which net loan impairment and other credit risk provisions have been set up, are classified as being in default in terms of their credit rating and are therefore automatically shown in the credit ratings 6 and 7. In order to allow for country risks, net loan impairment and other credit risk provisions can also be set up for exposures with higher credit ratings. These stood at €2.4 million in the year under report (2009: €3.0 million).

The following table shows the individually impaired financial assets as of the balance sheet date:

in €m	31.12.2010			31.12.2009		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before individually						
Credit category 6	0.0	65.9	65.9	0.0	74.4	74.4
Credit category 7	0.0	19.5	19.5	0.0	6.0	6.0
Total	**0.0**	**85.4**	**85.4**	**0.0**	**80.4**	**80.4**
Individually assessed						
Credit category 6	0.0	23.5	23.5	0.0	25.2	25.2
Credit category 7	0.0	14.7	14.7	0.0	4.3	4.3
Total	**0.0**	**38.2**	**38.2**	**0.0**	**29.5**	**29.5**
Book value after IAI*	**0.0**	**47.2**	**47.2**	**0.0**	**50.9**	**50.9**

* IAI Individually assessed impairments

Within the scope of credit risk provisions HSBC Trinkaus also makes credit provisions for individual contingent liabilities and loan commitments which amounted to € 2.1 million in the year under report (2009: € 3.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 10.9 million (2009: € 13.4 million) for loans and advances and € 3.6 million (2009: € 3.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 34.8 million (2009: € 63.3 million) as of the balance sheet date.

h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 21.4 million (2009: € 26.9 million) in the year under report.

i) Realisation of collateral received and drawing on other credit improvements

No collateral received and other credit improvements were realised and drawn on, respectively, in the 2010 financial year (2009: € 26.7 million).

(j) Information on credit risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced strongly by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region. Furthermore, there can also be a concentration of the credit risk if a disproportionately large share of the credit risk is concentrated on individual borrowers. The Bank therefore also monitors the concentration on individual addresses in order to achieve the greatest possible distribution of the risk in the lending business.

As of the balance sheet date the Bank's theoretical maximum default risk breaks down as follows:

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	9,401.4	41.6	9,439.0	41.7
Companies and self-employed professionals	8,352.7	37.0	8,068.7	35.6
Public sector	4,456.6	19.7	4,797.2	21.2
Employed private individuals	382.9	1.7	348.9	1.5
Total	22,593.6	100.0	22,653.8	100.0

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	14,806.3	65.6	15,483.2	68.3
Other EU (including Norway and Switzerland)	6,514.8	28.8	5,885.8	26.0
North America	616.1	2.7	650.2	2.9
Asia	449.0	2.0	472.4	2.1
South America	118.7	0.5	70.5	0.3
Africa	43.5	0.2	39.9	0.2
Rest of Europe	28.3	0.1	33.8	0.1
Oceania	16.9	0.1	18.0	0.1
Total	22,593.6	100.0	22,653.8	100.0

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 1,633.2 million (2009: € 2,674.0 million).

It can be seen from the breakdown by region that a substantial part of the loans and advances is concentrated in Germany as well as in EU countries including Norway and Switzerland.

(k) Counterparty risk monitoring as required by the supervisory authority

A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus from which the Credit Risk Control department has evolved. It acts as the counterparty risk monitoring unit and is responsible for the maintenance, monitoring and further development of the credit-risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

(l) Credit portfolio management

The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks at the portfolio level. For this purpose the Bank employs a simplified portfolio model which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. Parallel to this, the RiskFrontier portfolio model used at the HSBC level has been used for several months in order to monitor credit risk concentration. The results of the risk-sensitive analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

(m) Stress tests

Both the internal and the external risk-sensitive assessment of the credit portfolio are subjected to various stress test scenarios on a quarterly basis. The stress tests are conceived and the calculation and analysis of the results carried out by the Credit Risk Control department involving the credit department and the corporate banking segment. There is extremely close cooperation with respect to both methods and scenarios with the HSBC Group here as well.

Operational risk

We define operational risk as the risk of losses caused by fraud, unauthorised activities, errors, negligence, inefficiency or system faults, as well as those caused by external events. Operational risks exist in any area of an organisation and embrace a broad spectrum. Legal risks are also regarded as operational risks.

HSBC Trinkaus has always attached major importance to the reduction of operational risk to a level which is acceptable from the point of view of the costs involved. The Operational Risks and Internal Controls Committee is the central body responsible for the control of operational risks as well as reputational risks across the board within the Bank. The Committee meets every two months and is chaired by the member of the Management Board responsible for risk controlling. The Committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank and the entire HSBC Trinkaus Group.

The Committee's task is to identify operational risk across the Group, to evaluate and monitor it and to take steps for its control and future avoidance. The business procedures and processes in all of the Bank's divisions and subsidiaries are analysed in collaboration with the respective divisional heads and managing directors as well as the decentralised coordinators for operating risks in order to identify potential operational risk. The Committee monitors via these and other measures the effectiveness of the internal control environment.

Identified operational risks are evaluated with respect to their possible loss potential; the probability of these risks occurring before any risk reduction measures have been introduced is also examined. The absolute extent of the risk is determined in this way. Controls already implemented are then taken into consideration and on this basis the risks allocated to one of four risk categories. If the Committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. For example, the Committee can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

The risks, including their valuation, measures introduced as well as losses incurred, are formally documented in a system developed by the HSBC Group. The decentralised coordinators for operational risks in the individual business divisions and subsidiaries are responsible for seeing to it that the information recorded reflects the current risk profile at all times.

As the Group-wide coordinator, the secretary of the Operational Risks and Internal Controls Committee initiates and monitors the implementation of the Committee's decisions in the Bank including its subsidiaries. The methods, concepts and instruments of operational risk management are constantly refined and developed further in close collaboration with the HSBC Group.

The minutes of the Committee meetings are approved and particularly important points discussed in the Management Board meetings. This ensures that all Management Board members are constantly informed about current developments and the Bank's risk profile.

The reporting system for incidents is a further important instrument for identifying and observing operational risks. All HSBC Trinkaus subsidiaries and branches are also included in the system. All operational problems that lead to significant loss of profit, or which could have done so under unfavourable conditions, must be reported to the Committee's office. This ensures that each incident, including each potential incident, is analysed to establish whether the error was an isolated occurrence or is likely to recur. The Committee then decides how this risk can be reduced if necessary. All operational incidents above a certain preset reporting threshold are centrally recorded in an incidents database.

The Supervisory Board is informed once a year about the activities of the Operational Risks and Internal Controls Committee. This also includes a statement of overall losses including an explanation of particular occurrences.

In addition to the reporting system for incidents, staff are asked to report problems connected with operational risk to the Committee's office.

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The work carried out by the Committee in recent years has significantly increased the awareness of operational risk among all employees. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk as well as reputational risks. In the light of this, regular training is carried out in the various business areas of the Bank. In addition, every new employee has to take part in corresponding obligatory training on the topic of operational risk.

HSBC Trinkaus minimises operational risk by the constant control of working processes, security measures and not least by the employment of highly qualified staff. Operational risk is also partly covered by insurance. The processes in the Bank are regularly analysed and improved on an on-going basis. In particular, the Support Function Operational Risk and Internal Controls is also involved in the conception and approval of new products and services in order to ensure that operational risks are identified early on and minimised via suitable measures. Flat hierarchies and direct communication mean that problems can be quickly removed and risk thereby reduced.

Workflow descriptions of the individual business processes stipulate in detail which controls are built into the processes in question. We attach particular importance to the principle of dual control. Workflow descriptions are revised on a regular basis and managed centrally.

The efficiency of the control processes implemented and documented is examined and certified on a regular basis for all important controls based on a representative random sample in a multi-stage procedure independently of the specialist areas carrying out the controls.

Information risks are managed within the scope of the Business Information Risk Officer (BIRO) programme which is controlled by a central committee, the Group's Information Security Risk Committee. The Committee meets on a quarterly basis to discuss relevant issues, stipulate key points of emphasis and decide upon corresponding measures. The role of Chief Information Security Officer in the HSBC Trinkaus Group is taken on by the head of IT Security.

The specialist management of the BIRO programme is carried out by the Support Function Operational Risk and Internal Controls. So-called Business Information Risk Officers have been appointed in all business segments and at all subsidiaries. This guarantees that information risks are observed from an integral perspective and that alongside technological issues, comprehensive specialist, legal and conceptional issues are also taken into consideration.

One key issue in 2010 was the introduction of group-wide methodology for the risk-based classification of information. In addition, IT applications which are developed and operated outside the central Information Technology team were again inventoried and classified with respect to their risk profile. If necessary, corresponding further measures were implemented to limit the risks identified. Numerous staff training sessions and workshops were carried out as well as in-house publications released during the year under report in order to sensitise our employees even more to the adequate handling of confidential information. Significant progress was also made with regard to the use of modern encryption technologies in email communication with external third parties.

The observance of the HSBC Group's guidelines is guaranteed by the integration of the head of the BIRO programme into the corresponding activities of the HSBC Group.

Market risk

Market risk is understood as the extent to which the market value of a financial instrument can rise or fall to the Bank's disadvantage based on changes to market price parameters. Market risk includes the following three types of risk: exchange rate risk, interest rate risk as well as equity and other price risks. Market risks arise at HSBC Trinkaus primarily from interest rate, equity and foreign exchange trading activities as well as to a lesser extent from commodities where there is no physical delivery.

To measure market risks in our trading book under normal market conditions for many years we have been using a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model was expanded significantly in 2010 in terms of commodity and (credit) spread risks, the use of which for regulatory purposes was authorised by BaFin in August. It is still based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also the Notes for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in the market parameters. With respect to interest rate risk we consider both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from corporate bonds in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates including gold prices
- Commodity prices (various types of oil, silver)
- Zero interest rates for typical maturities from swap curves
- Credit spreads for various categories such as Pfandbriefe, bonds issued by German federal states and bank bonds with further differentiations by credit standing and/or maturity.
- Equity and equity index option volatilities for typical maturities
- Foreign exchange option volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

Issuer-specific interest rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. They are also covered via the regulatory standard approach.

The total market risk of HSBC Trinkaus & Burkhardt AG according to our internal risk model and comparable figures for our Luxembourg subsidiary are as follows:

in €m	2010			
	31.12.	Average	Minimum	Maximum
Interest rate risk	2.6	2.4	1.6	3.2
Currency risk	0.3	0.4	0.1	1.2
Equity/index risk	1.8	3.8	1.2	7.9
Credit spread risk*	3.7	3.8	3.1	4.3
Commodities risk*	0.2	0.0	0.0	0.2
Total potential market risk in the trading book**	**4.9**	**8.1**	**4.9**	**10.9**

in €m	2009			
	31.12.	Average	Minimum	Maximum
Interest rate risk	2.9	2.8	2.1	3.6
Currency risk	0.2	0.3	0.1	1.0
Equity/index risk	4.6	3.3	0.8	6.2
Total potential market risk in the trading book	**4.7**	**4.9**	**2.7**	**8.4**

* have only been calculated since 17 September 2010; figures for the comparable period are therefore not available.
** includes credit spread and commodity risks.

Risks relating to interest rates (including general credit spread risks) and equities still represent the Bank's greatest market risks. The extreme market movements on individual days on account of the financial market crisis also dominated the values at risk in 2010 as a 500-day history is used to simulate the risks.

The more detailed diversification of the credit spread risks led to slightly higher values at risk.

We also use our internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries.

For the purpose of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. As was already the case in 2009, no back-testing anomalies were found throughout the Bank in 2010. Given the major distortions on the financial markets in the meantime, this continues to suggest that the modelling employed is probably on the conservative side.

Outside the model we continue to employ a number of additional sensitivity, volume and maturity limits in order to avoid concentration risks and also account for those risks which cannot be entirely incorporated into the model. We counteract high levels of uncertainty in the valuation of positions in illiquid markets not only by using limits, but also by making adequate valuation adjustments.

Value-at-risk approaches are unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences. To cater for this, we supplement our full risk identification system with daily stress testing of all trading departments in order to assess the impact of extreme market movements on the value of positions. The stress testing results form part of the daily risk reporting process and provide us with valuable additional information. Separate limits are defined for the losses arising from the stress tests and the scenarios we use are regularly checked and adjusted.

Compliance with all risk limits is monitored every day by the Market Risk Control on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the Asset and Liability Management Committee on the basis of their capacity to assume risk and are adjusted, if necessary, during the course of the year. Market Risk Control also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to HSBC.

The average market risk potential in the regulatory investment book (99 % confidence interval / 1-day holding period) came to € 7.2 million (2009: € 3.5 million). This figure includes the credit spread risks for the first time in the year under report. Without taking these risks into consideration the figure would come to € 3.4 million. Market risks in the Bank's investment book are limited to interest rate as well as equity and other price risks. They are determined outside the risk models and are controlled at executive management level.

Liquidity risk

We understand liquidity risk as the danger of insolvency which arises if long-term assets are financed on a short-term basis and unexpected outflows of funds cannot be compensated.

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in order to remain solvent at all times, even in the event of extreme events. In order to detect liquidity risk early on, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. These are specifically defined in our three-stage emergency liquidity plan which can be activated at short notice.

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk. ALCO's duties include monitoring liquidity and funding ratios as well as the regular adjustment of the liquidity risk strategy including the emergency liquidity plan and transfer pricing for liquidity within the Bank.

Our liquidity risk strategy envisages that the Bank can fulfil its payment obligations at any time without HSBC's support and that central bank liquidity is not to be used as a lasting source of financing. The constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit.

Our subsidiary in Luxembourg is included in liquidity risk management at the Group level according to the procedures and parameters used throughout the Group. In addition, as an individual institution it controls its liquidity independently, thereby fulfilling all the regulatory requirements in Luxembourg.

The following overview shows the Bank's key liquidity ratio in accordance with the German Liquidity Ordinance (LiqV), which by far exceeds the statutory requirements:

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2010	2009
31.12.	2.13	1.79
Minimum	1.75	1.63
Maximum	2.63	2.08
Average	2.13	1.84
Reference value in accordance with section 2 LiqV	**1.00**	**1.00**

We brought the internal liquidity management procedures in line with the methods applicable for the HSBC Group worldwide to the greatest possible extent in 2010. Liquidity forecasts derived from six different stress scenarios are the central control instrument. The scenarios differ in terms of the various assumptions with respect to outflows of liquidity and changes in the value of securities which can be combined with institute-specific or market-wide results. In each scenario we forecast the cumulative change in the cumulative inflows and outflows from the commercial business across several maturity bands. In the institution-specific scenarios, the full deduction of the customer deposits not qualified as core deposits within three months and the drawing on uncalled loan commitments of up to 35 % in the same period is assumed. Resulting cash deficits have to be balanced out by the liquidation of the liquidity cushion of marketable assets.

The minimum amount of the cushion required for this in an institution-critical scenario therefore also secures the Bank's ability to pay at all times even given unexpected outflows of funds. The institution-critical scenario is based on an annual risk valuation by HSBC on the basis of internal and external factors and is supplemented by an in-house scenario which is meant to show the effect of a rating downgrade of up to three rating notches.

The cumulative net balance of the liquid funds after six months and after liquidation of the liquidity cushion in the institution-critical scenario is the most important internal liquidity ratio. It must be clearly positive.

Large parts of the liquidity cushion consist of public sector bonds, Pfandbriefe and other eligible assets which are not used otherwise as collateral and for which we carry out different valuation mark-downs depending on the scenario. Securities or cash collateral transferred to third parties for security or margin obligations is not included in the liquidity cushion. As of 31 December 2010 we had deposited most of these assets with a collateral value of €4.34 billion at the Bundesbank (2009: €4.85 billion) giving us potential access to central bank loans to this extent. We did not participate in any new ECB main refinancing transactions in 2010.

The advances/core funding ratio represents the most important funding ratio. Owing to a different method of calculation, this ratio is higher than the ratio of loans and advances to customers to customer deposits, which can be derived from the balance sheet. This ratio stood at 30.4 % (2009: 29.7 %) at the end of the year versus an advances/core funding ratio of 52.1 % (2009: 61.7 %).

We monitor the maturity matching of the financing structure based on regular liquidity outflow analysis in which the liquidity commitment is broken down into contractual and effective terms. The dependence on individual creditors is also measured based on concentration ratios for the 20 largest creditors. There was no material concentration with respect to assets and financing sources or in respect of foreign currencies.

We issue no funding tools which provide for accelerated repayment depending on the deterioration of credit quality or which can be settled by the delivery of treasury shares instead of in cash. Obligations to provide collateral in cash or in securities can arise unilaterally in connection with stock exchange transactions settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders. The individual transactions are usually subject to netting agreements. As of 31 December 2010 the Bank had received €57.0 million (2009: € 74.4 million) and provided €296.2 million (2009: € 346.6 million) in cash collateral under such collateral riders.

In order to show the Bank's liquidity risk, an overview of the residual terms of the financial liabilities is given in the table below. The cash flows agreed by contract are reported on an undiscounted basis. Such undiscounted cash flows can deviate from the book value shown in the balance sheet insofar as discounted values are taken into consideration in the balance sheet.

in €m	31.12.2010						
		Gross outflow (not discounted)					
	Book value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	1,180.4	1,181.4	1,084.4	3.1	75.4	18.5	0.0
Customer accounts	10,148.0	10,158.6	8,782.4	779.2	345.5	96.6	154.9
Certificated liabilities	10.0	12.8	0.4	0.0	0.0	1.2	11.2
Trading liabilities (excluding derivatives*)	2,997.9	3,289.8	586.4	170.2	888.2	879.5	765.5
Derivatives in hedging relationships	5.7	5.6	0.3	–0.2	2.1	4.2	–0.8
Provisions**	96.5	106.4	84.0	0.0	0.0	0.0	22.4
Other liabilities	214.1	215.3	57.5	29.2	99.0	22.3	7.3
Subordinated capital	378.4	616.4	16.5	0.1	0.0	72.7	527.1
Sub-total	15,031.0	15,586.3	10,611.9	981.6	1,410.2	1,095.0	1,487.6
Financial liabilities outside the balance sheet:							
Financial guarantees	842.3	842.3	842.3	0.0	0.0	0.0	0.0
Loan commitments	3,751.9	3,751.9	3,751.9	0.0	0.0	0.0	0.0
Total	**19,625.2**	**20,180.5**	**15,206.0**	**981.6**	**1,410.2**	**1,095.0**	**1,487.6**

in €m	31.12.2009						
		Gross outflow (not discounted)					
	Book value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	2,697.6	2,699.7	2,641.0	9.7	30.9	13.7	4.4
Customer accounts	9,062.1	9,093.8	7,900.3	597.7	315.6	99.9	180.3
Certificated liabilities	10.0	13.1	0.4	0.0	0.0	1.2	11.5
Trading liabilities (excluding derivatives*)	2,740.6	3,111.2	183.4	183.5	498.0	1,297.1	949.2
Derivatives in hedging relationships	3.2	3.7	–0.3	–0.1	1.9	1.3	0.9
Provisions**	152.2	162.6	140.4	0.0	0.0	0.0	22.2
Other liabilities	95.3	97.3	23.1	34.2	21.0	10.9	8.1
Subordinated capital	384.4	650.4	0.0	0.0	6.2	39.2	605.0
Sub-total	15,145.4	15,831.8	10,888.3	825.0	873.6	1,463.3	1,781.6
Financial liabilities outside the balance sheet:							
Financial guarantees	351.6	351.6	351.6	0.0	0.0	0.0	0.0
Loan commitments	3,290.2	3,290.2	3,290.2	0.0	0.0	0.0	0.0
Total	**18,787.2**	**19,473.6**	**14,530.1**	**825.0**	**873.6**	**1,463.3**	**1,781.6**

* In accordance with the changes to IFRS 7 in March 2009, there are no derivatives in trading liabilities included in the liquidity analysis by contractual residual term which do not serve to hedge the Bank's long-term positions.

** Net obligations pursuant to IAS 19 are recognised with their average term

Analysis of the residual terms shows that most of the financial instruments are due by contract within the first three months of the balance sheet date. It is to be taken into consideration, though, that liabilities do not necessarily have to be repaid at the earliest possible point in time and that uncalled loan commitments are not drawn on in full.

IFRS 7 requires that gross outflows are shown by contractual residual term. The informative value of such a table showing the Bank's liquidity is only limited as the expected cash flows are used above all for effective management. Internal liquidity management as well as the supervisory ratios give a far better insight into the liquidity position here.

Since the Bank's liquidity situation cannot be adequately reproduced by looking at liabilities alone, the book values of the main assets and liabilities by residual term which will lead to future cash outflows or inflows are set against each other in the table below:

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Loans and advances to banks	31.12.2010	1,199.2	191.2	12,5	0,0	0,0	0,0	1.402,9
	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
Loans and advances to customers	31.12.2010	1,642.2	863.5	400.6	165.1	18.2	0.0	3,089.6
	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
Trading assets* / **	31.12.2010	10,129.7	0.0	0.0	0.0	0.0	0.0	10,129.7
	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
Financial assets	31.12.2010	291.3	32.7	609.5	1,267.7	868.6	236.1	3,305.9
	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
Other assets	31.12.2010	0.4	0.0	9.7	0.0	0.0	193.6	203.7
	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
Total	**31.12.2010**	**13,262.8**	**1,087.4**	**1,032.4**	**1,432.8**	**886.8**	**429.7**	**18,131.8**
	31.12.2009	**13,763.9**	**786.1**	**634.6**	**1,948.6**	**834.0**	**471.7**	**18,438.9**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Deposits by banks	31.12.2010	1,084.1	3.1	75.1	18.1	0.0	0.0	1,180.4
	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
Customer accounts	31.12.2010	8,781.8	778.3	344.4	95.0	148.5	0.0	10,148.0
	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
Certificated liabilities	31.12.2010	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities* / **	31.12.2010	5,194.3	0.0	0.0	0.0	0.0	0.0	5,194.3
	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
Provisions***	31.12.2010	83.7	0.0	0.0	0.0	12.8	0.0	96.5
	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
Other liabilities	31.12.2010	214.1	0.0	0.0	0.0	0.0	0.0	214.1
	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
Subordinated capital	31.12.2010	16.5	0.1	0.0	60.6	301.2	0.0	378.4
	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
Total	**31.12.2010**	**15,374.5**	**781.5**	**419.5**	**173.7**	**472.5**	**0.0**	**17,221.7**
	31.12.2009	**15,895.0**	**639.6**	**370.2**	**151.4**	**538.9**	**0.0**	**17,595.1**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 59.

** excluding derivatives which are part of a hedging relationship

*** Net obligations pursuant to IAS 19 are recognised with their average term

The ICS in the Accounting Process

General

The Internal Control System (ICS) is an integral part of our risk management system. The requirements pursuant to section 289 section para. 5 and section 315 para. 2 German Commercial Code (HGB) relating to the explanation of the main features of the internal control and risk management system with regard to the accounting process are to be fulfilled here.

The ICS with regard to the accounting process takes into account the principles, procedures and measures to guarantee the observance of all the statutory requirements and the provisions of the articles of association to this effect. It ensures that a true and fair view of the company's assets and liabilities, along with its financial position and earnings situation, determined in accordance with generally accepted accounting principles is presented. The controls implemented shall guarantee with reasonable assurance that the individual and consolidated financial statements are drawn up in compliance with the provisions.

Through the establishment and further development of our internal control system, adequate, but not absolute certainty with respect to the fulfilment of the control targets can be achieved. This means on the one hand that the establishment of internal controls is determined by their cost:benefit ratio. On the other, the implementation of the ICS by our employees entails the risk of human error when executing activities. Furthermore, errors can arise with respect to estimates or the exercise of discretionary powers. Misstatements in the annual financial statements cannot therefore be uncovered or prevented with absolute certainty.

We define an issue as material if the assessment of the annual financial statements by the reader of the financial report and the quality of the accounting information were to be impaired by the absence of this information and if the picture given of the company's assets and liabilities, along with its financial position and earnings situation, were incorrect.

The Internal Control System at the company level is documented comprehensively and examined and updated annually within the scope of the requirements under the US Sarbanes Oxley Act (SOX), which is indirectly applicable to us as well through the listing of the HSBC shares in New York. HSBC Trinkaus follows the principles of responsible company management and company monitoring as laid down in the German Corporate Governance Code. Pursuant to section 161 German Stock Corporation Act (AktG) the Management Board and Supervisory Board declare on an annual basis that the recommendations of the "Government Commission on the German Corporate Governance Code" were and are complied with and which recommendations were or were not applied and for what reason. This declaration is part of the corporate government statement pursuant to section 289 a German Commercial Code (HGB) which is published on our homepage (www.hsbctrinkaus.de).

In addition, we have formulated a code of conduct in writing which expresses our understanding of values and our behavioural standards to which the Management Board and all employees have committed themselves in writing. We have also laid down a detailed compliance concept in writing.

Organisational structure

The organisational structure of the Bank including the Support Functions and the responsibilities within the Management Board are presented in the chapter entitled "The Business Divisions". Accounting at the Bank is primarily the responsibility of the Support Functions Accounting and Controlling.

The Support Function Accounting is responsible for accounting according to HGB (individual financial statements of the parent company) and according to IFRS (consolidated financial statements of the HSBC Trinkaus Group and subgroup financial statements for HSBC Bank plc, London). The tax department, the accounting of the main German subsidiaries as well as regulatory reporting are also assigned to the Support Function Accounting.

The Support Function Controlling is responsible for the internal Management Information System (MIS) which consists essentially of profit contribution accounting, cost centre accounting, customer costing as well as planning and budgeting.

The Support Function Market Risk Control (MRC) is responsible for determining the market and fair values of financial instruments. Where available, market prices publicly quoted on an active market are taken as a base, otherwise the values are determined on the basis of recognised valuation methods. The prices determined in this way are included in the back office and accounting systems via automated interfaces on a same-day basis. The selection of the data sources used as well as the assignment of the valuation parameters used and the valuation methods to be applied are carried out by Market Risk Control independently of trading. Essential matters relating to the valuation are discussed in the monthly Valuation Committee meetings. The Chairman of the Committee is the Management Board member responsible for Accounting. Further members include the heads of MRC and Accounting as well as the Chief Operating Officer Markets as the representative of the trading departments.

The company's annual financial statements and management report as well as the consolidated financial statements and group management report are drawn up by Accounting and the Management Board. The key figures of the annual financial statements and the consolidated financial statements are discussed in the February meeting of the Supervisory Board. In a second meeting the annual financial statements and the management report as well as the consolidated financial statements and the group management report are approved by the Supervisory Board and hence adopted. On the basis of the adopted annual financial statements the Annual General Meeting makes the resolution over the appropriation of profit available for distribution.

The annual financial statements including the management report as well as the consolidated financial statements including the group management report and the interim reports are published electronically in the Federal Gazette (Bundesanzeiger).

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt, Düsseldorf, was Chairman of the Audit Committee until 31 December 2010. Further members at this point in time were Harald Hörauf, Eggstätt and Peter Boyles, Paris.

The external auditors are elected at the Annual General Meeting for the current financial year. The external auditors are appointed by the Audit Committee of the Supervisory Board observing the provisions of section 318 ff. German Commercial Code (HGB). In addition, the external auditors explain their audit programme together with the main points of the audit and prove their independence in an Audit Committee meeting. In a further Audit Committee meeting the external auditors explain their main audit procedures and findings. At the meeting of the Supervisory Board at which the annual financial statements are adopted, the external auditors explain their main audit procedures and findings to the entire Supervisory Board.

In accordance with the provisions of the Minimum Requirements for Risk Management (MaRisk) published by the Federal Financial Supervisory Authority (BaFin), the internal audit department examines the effectiveness and appropriateness of the Risk Management and Internal Control System on a risk-oriented and process-independent basis. In order to carry out its duties, the internal audit department has the right to full and unlimited information regarding all processes and IT systems used.

IT systems

The financial statements of HSBC Trinkaus & Burkhardt AG according to HGB well as the MIS are based substantially on integrated accounting. This involves a self-developed mainframe program package which essentially provides data and interim results for the daily, monthly and annual financial statements including the income statement as well as for cost centre accounting and customer costing. Integrated accounting guarantees that there is a close connection between accounting and

MIS. Accounting according to IFRS for HSBC Trinkaus & Burkhardt AG is also featured in integrated accounting via separate company codes.

Various input systems for settling the different business transactions automatically transfer the accounting records for these business transactions (machine registers) to integrated accounting. The settlement of the business transactions and therefore the utilisation of the input systems is carried out in the various specialised back office areas on a decentralised basis (e.g. securities transactions in GEOS by HSBC Transaction Services, exchange-traded derivatives in Rolfe & Nolan by Treasury and Derivatives Operations, etc.). Manual registers are required only in exceptional cases.

Accounting entry programs developed by the Bank itself as well as individual data processing programs (Microsoft Excel and Access) are also used to complement integrated accounting. The programs are used to determine accounting data which are then transferred to integrated accounting. They consist essentially of systems for entering and paying incoming invoices, for drawing up outgoing invoices and entering simple booking records as well as applications for account reconciliation, investment accounting and the presentation of the development of fixed assets and summary of movements in provisions.

Accounting for the subsidiaries is carried out in each case in a standard software solution provided by an external software supplier and serves primarily the preparation of the individual financial statements of the respective subsidiary according to commercial law.

Consolidation is based substantially on TuBKons, an access programme package developed by the Bank itself and the data stored in a DB2 system. Debt, expense and income as well as capital consolidation and the elimination of intercompany gains is carried out in TubKons based on the import from integrated accounting, the various import systems with the required transaction details as well as the accounting carried out for all main subsidiaries (including the special funds liable to consolidation). Reconciliation from HGB to IFRS figures is also carried out for the subsidiaries and all group valuation measures presented.

General structure of the ICS

The main principles for the structure of the ICS with regard to the accounting process are:

(a) Functional separation
Customer contact and business transactions are clearly separated from all downstream processes in operational terms up to Management Board level. In addition to the internal audit department, the Support Function Operational Risk and Internal Controls is of particular importance with regard to the accounting process. It is responsible among other things for the reconciliation of all loro and nostro accounts as well as reconciling all trade confirmations received with the trade confirmations of the various back office areas. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(b) Principal of dual control and authority rules
Each entry must be verified by a second person. The permissions for this are geared towards the experience and specialist knowledge of the individual employees and regularly updated in the IT systems. They are examined by the respective divisional heads on a regular basis.

(c) Professional skills of the employees
The quantitative and qualitative staffing in Accounting and Controlling is appropriate. The employees have the required knowledge and experience depending on their area of responsibility. This is examined within the scope of the annual planning process and considered accordingly in both the staff appointment scheme and the training budget.

(d) Access authorisations
Differentiated access authorisations have been established for integrated accounting as well as all other main systems in accounting to protect against unauthorised access.

Specific components of the ICS

In addition to the general principles, specific measures and controls have also been established with respect to the requirements of the accounting process.

(a) Accounting guidelines
The statutory requirements and relevant accounting standards are specifically defined in accounting guidelines and workflow descriptions which are examined regularly and updated if required. These also include detailed guidelines of the HSBC Group which are laid down in writing in several manuals and updated regularly. The observance of the workflow descriptions is part of the examination of the specialist division responsible in each case by the internal audit department by way of standard.

(b) Plausibility checks for all registers
During the processing of a register, various plausibility checks are carried out by the system. The plausibility checks lead either to the entry being rejected or to entries with default settings or to an error log which is processed the next day.

(c) Reconciliation of the back office systems
All derivatives and money market transactions are reconciled between the front and back office systems by a separate coordination group on a daily basis. Any differences are clarified the next day.

(d) Depositary reconciliation
Reconciliation with all depositaries is carried out on a monthly basis for all securities portfolios. In addition, daily reconciliation is carried out between the securities nostro system and the corresponding general ledgers for proprietary holdings. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(e) Internal accounts and securities accounts
All balances and holdings on internal accounts and securities accounts are broken down in detail and confirmed by the responsible divisions on a monthly basis. Particular attention is paid to the settlement and clearing accounts which are also subject to unannounced examinations. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(f) Reconciliation with affiliated companies
All transactions within the HSBC Trinkaus Group are consolidated on a monthly basis. Any differences arising are recorded and clarified. Transactions with other companies from the HSBC group are presented separately in the monthly report to HSBC and automatically consolidated by HSBC. Any substantial differences arising are reported to both companies concerned on a quarterly basis and are to be promptly clarified.

(g) Account statements and confirmations of open transactions
The Support Function Operational Risk and Internal Controls sends out annual account statements for all customer accounts. For open transactions, in particular OTC derivatives (including foreign exchange transactions), the internal audit department separately reconciles all outstanding transactions with a random sample of counterparties on an annual basis.

(h) Reconciliation between Accounting and Controlling
As the preparation of the financial statements and the MIS are collectively based on integrated accounting, the monthly reconciliation between Controlling and Accounting is a central component of the ICS with regard to the accounting process. This ensures that all substantial errors are quickly recognised and corrected.

The administrative expenses according to the income statement are allocated in MIS within the scope of cost centre accounting to the divisions incurring the costs and compared with the budgeted figures. Larger deviations are to be explained by the responsible divisional heads at least on a quarterly basis.

Net interest and net fee income according to the income statement are also reconciled with customer costing. Customer costing is made available to the customer service officers and the divisional heads of the divisions servicing customers on a monthly basis. It is the main control instrument for all divisions servicing customers. Implausible and conspicuous features are promptly clarified between Controlling and the customer division.

(i) Reconciliation between Market Risk Control und Accounting

Market Risk Control determines the trading result per trading desk on a daily basis. The results are reconciled in Accounting each month with the revenues of the trading departments in accordance with profit contribution accounting. All differences are analysed down to instrument level, the main differences being promptly discovered and corrected.

(j) Analysis of special business transactions

The customer-servicing divisions report all special business transactions to Accounting and Controlling on a monthly basis in order to ensure that they are entered correctly and promptly in accounting. Accounting also analyses all main items under other net other operating income and expenses and income from financial assets on a monthly basis.

(k) Plausibility checks

All general ledgers of the income statement are checked for plausibility in an initial step on a monthly basis by comparing them with prior periods and with the budgeted figures. Any irregularities and discrepancies are clarified immediately in cooperation with Accounting and Controlling.

(l) Overall reconciliation of the income statement

The preliminary monthly result is discussed between the responsible Management Board member and the heads of Accounting and Controlling before the accounts are closed. Direct contact between all the main decision-makers is an important element of the internal control process in a Bank of our proportions. Any implausibilities are promptly discussed and clarified. All points still open are also discussed and the responsibility and time frame for clarifying and dealing with them agreed.

(m) Discussion of the monthly results by the Management Board

Immediately after completion of the monthly income statement the results are sent to the Management Board member responsible for accounting. He forwards the key data of the monthly statement together with his comments to the other Management Board members for discussion in the next Management Board meeting. The discussion by the Management Board guarantees the initial monthly plausibility check of the group figures by the overall Management Board. In addition, all Management Board members receive a detailed monthly report drawn up and commented on by Controlling which includes the trend in revenues and costs for both the Group as a whole and the main subsidiaries. The revenues and costs are also shown broken down by product and business segment. An additional quarterly report is drawn up by Controlling in the quarterly results, which makes the revenues and costs of all subsidiaries broken down into private and corporate banking business as well as the revenues and costs of all product specialists in the individual client groups transparent for all Management Board members.

Staff

Number of employees and persons receiving Pensions

We had a total of 1,472 employees at the end of 2010, compared to 1,438 at the end of the previous year. This represents an increase of 2.4 %. At the end of 2010 we were paying retirement, widow's and orphan's pensions to 554 recipients, compared to 556 at the end of 2009.

Training activities

A total of 36 highly-motivated apprentices are currently working at the Bank towards professional qualifications in banking, office communication and IT. Two of the banking apprentices are attending a parallel part-time Bachelor of Arts study course in "Business Administration" at the Hochschule für Oekonomie & Management. In addition, five apprentices are working towards investment fund specialist qualifications at our subsidiary Internationale Kapitalanlagegesellschaft mbH and a further six towards professional office communication qualifications at HSBC Transaction Services GmbH. We are proud to report that a total of 24 trainees in the HSBC Trinkaus Group successfully completed their training in 2010 as well. Five apprentices passed their final exams with the grade of "very good". We will remain strongly committed to the qualified training of our employees.

Advanced training

We see the professional and social skills as well as the special commitment of our employees as a decisive competitive advantage. Thanks to consistent personnel development we are in the position to constantly offer our clients major expertise and high quality with respect to our advisory service. The individual advanced training measures we offer our employees are tailored to meet their respective requirements and are developed in advance based on detailed analysis. We work together with selected trainers who are familiar with the Bank's requirements and whose excellent qualifications guarantee the successful implementation as well as the needs-oriented preparation and fine-tuning of the measures. For example, we help our employees to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank. We also offer them leadership and acquisition seminars, coaching as well as communication and presentation training. We pay particular attention to training, promoting and supporting our senior management members in their special management functions.

Within the scope of personnel development we promote Bachelor and Master occupational study courses as well as selected specialised training courses. In addition to the Chartered Financial Analyst (CFA) or Certified International Investment Analyst (CIIA) courses, Certified Compliance Professional or Certified Credit Analyst (CCrA) courses were also offered in the year under report, for example. Our broad range of advanced training activities is rounded off by PC and IT seminars and foreign language courses (also in preparation for secondments abroad).

Performance-related remuneration

Performance-related remuneration which is in line with the market remains of major importance for motivating our staff regardless of whether they are tariff or non-tariff employees. In this context, incentives in the form of variable remuneration components which are in keeping with the Bank's long-term goals and strategies play an important role for our managerial staff.

Thanks

The Bank continues to owe its success to the particular commitment and outstanding performance of our employees and we would like to take this opportunity to thank them all. We would also like to thank the Employees' Council and the staff representatives on the Supervisory Board for their constructive and trusting cooperation once again over the past financial year.

Shareholders and Shares

Capital

As at 31 December 2010 the Bank's issued share capital was € 75.4 million (2009: € 70.0 million) divided into 28.1 million (2009: 26.1 million) no-par value shares. 55.2 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges. The capital increase carried out by HSBC Trinkaus & Burkhardt AG was successfully completed at the beginning of July. New shares were issued at ratio of 1 for 13, in other words a total of 2,007,693 shares, at a price of € 75.00 per share. Share capital accounts for € 5.4 million and the capital reserve for € 145.2 million.

All shares have uniform rights and are bearer shares. Each no-par value share carries one vote. The Management Board knows of no limitations affecting voting rights or the transfer of shares.

Within the scope of the capital increase, HSBC Holdings plc, London, increased its share and as of the balance sheet date indirectly held 80.4 % (2009: 78.6 %) of this share capital. Landesbank Baden-Württemberg in Stuttgart directly held a share of 18.9 % (2009: 20.3 %).

Share price and market value

During 2010 our share price fell 9.2 % to € 89.00. The lowest fixing price of the year was € 87.50 and the highest € 113.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.64	317.52
31.12.1990	22,000,000	19.79	435.38
31.12.1995	23,500,000	30.58	718.63
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.75
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80
31.12.2010	28,107,693	89.00	2,501.58

* Adjusted for 1 for 10 stock split on 27 July 1998.

Dividends

For the 2010 financial year we propose paying a dividend of € 2.50 per share (2009: € 2.50 per share). With a dividend total of € 70.3 million (2009: € 65.3 million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2010.

German Commercial Code Consolidated Accounts

Annual Balance Sheet of HSBC Trinkaus & Burkhardt AG

as at 31 December 2010

Assets				31.12.2010	31.12.2009
	in €	in €	in €	in €	in € 000
1. Cash reserve					
a) Cash on hand			2,434,059.99		2,707
b) Balances with central banks			332,802,311.87		173,432
of which with Deutsche Bundesbank	332,802,311.87				(173,432)
c) Balances with postal giro accounts			0.00		0
				335,236,371.86	176,139
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks					
a) Treasury bills and non-interest bearing treasury notes as well as similar debt instruments issued by public institutions					
of which eligible for refinancing			0.00		0
with Deutsche Bundesbank	0.00				(0)
b) Bills of exchange			0.00		0
				0.00	0
3. Loans and advances to banks					
a) Payable on demand			330,080,511.98		386,008
b) Other loans and advances			139,194,686.93		994,553
				469,275,198.91	1,380,561
4. Loans and advances to customers				2,921,712,367.02	2,595,674
of which secured by mortgages	0.00				(0)
Public-sector loans	186,467,944.56				(186,468)
5. Debt instruments and other fixed-income securities					
a) Money-market instruments					
aa) from public-sector issuers		0.00			0
ab) from other issuers		0.00			0
			0.00		0
b) Bonds and other debt instruments					
aa) from public-sector issuers		545,132,748.38			519,052
of which eligible as collateral with Deutsche Bundesbank	536,417,748.38				(510,337)
ab) from other issuers		1,800,613,094.01			1,650,356
			2,345,745,842.39		2,169,408
of which eligible as collateral with Deutsche Bundesbank	1,710,798,335.88				(1,582,409)

Assets				31.12.2010	31.12.2009
	in €	in €	in €	in €	in € 000
c) Own debt instruments			0.00		0
Nominal amount	0.00				0
				2,345,745,842.39	**2,169,408**
6. Shares and other non-fixed-income securities				339,653,181.59	366,293
6a. Trading book				9,390,696,354.23	8,767,260
7. Interests in subsidiaries				45,634,744.61	47,328
of which in banks	474,411.12				(474)
in financial services institutions	36,112,792.84				(37,353)
8. Shares in affiliated companies				180,556,262.05	181,272
of which in banks	0.00				(0)
in financial services institutions	5,002,428.63				(5,002)
9. Trust assets				152,839,909.63	150,369
of which trust loans	3,249,211.59				(3,242)
10. Recovery claims against public institutions including exchange of debt instruments				0.00	0
11. Intangible assets					
a) in-house generated industrial property rights and similar rights and assets			0.00		0
b) concessions purchased, industrial property rights, similar rights and assets as well as licences for such rights and assets			3,296,195.00		4,430
c) Goodwill			0.00		0
d) advance payments made			10,074.24		30
				3,306,269.24	**4,460**
12. Property, plant and equipment				18,983,702.06	17,850
13. Unpaid capital				0.00	0
of which called in	0.00				(0)
14. Other assets				61,461,932.73	78,433
15. Prepaid expenses				7,819,406.41	10,883
16. Deferred income tax assets				37,088,899.25	34,941
17. Difference arising on the asset side from acquisition accounting				24,360,481.50	26,997
18. Deficit not covered by equity				0.00	0
Total assets				**16,334,370,923.48**	**16,007,868**

Liabilities				31.12.2010	31.12.2009
	in €	in €	in €	in €	in € 000
1. Deposits by banks					
a) payable on demand			374,427,376.71		544,325
b) with agreed maturities or notice periods			806,689,860.03		2,304,452
				1,181,117,236.74	**2,848,777**
2. Customer accounts					
a) Savings deposits					
aa) with agreed notice periods of three months		41,750,837.96			32,350
ab) with agreed notice periods of more than three months		1,298,754.39			1,256
			43,049,592.35		**33,606**
b) Other liabilities					
ba) payable on demand		5,419,193,610.56			4,659,508
bb) with agreed maturities or notice periods		2,573,917,100.11			2,526,156
			7,993,110,710.67		**7,185,664**
				8,036,160,303.02	**7,219,270**
3. Securitised liabilities					
a) Debt instruments issued			0.00		0
b) Other securitised liabilities			0.00		0
of which own acceptances and promissory notes outstanding	0.00				(0)
				0.00	**0**
3a. Trading book				5,179,378,731.94	4,280,856
4. Trust liabilities				152,839,909.63	150,369
of which trust loans	3,249,211.59				(3,242)
5. Other liabilities				85,929,872.02	47,084
6. Deferred income				4,055,729.34	3,181
6a. Deferred income taxes				0.00	0
7. Provisions					
a) Provisions for pensions and similar obligations			2,852,482.75		4,357
b) Tax provisions			44,206,109.34		51,440
c) Other provisions			156,216,008.66		138,495
				203,274,600.75	**194,292**
9. Subordinated debt				278,369,378.22	284,369

Liabilities				31.12.2010	31.12.2009
	in €	in €	in €	in €	in € 000
10. Profit participation capital				100,000,000.00	100,000
of which maturing in less than two years	0.00				(0)
11. Fund for general banking risks				12,500,000.00	0
12. Shareholders' equity					
a) Subscribed capital	75,384,617.25		75,384,617.25		70,000
– Contingent capital –	29,615,382.75				(35,000)
b) Reserve premium			355,712,648.38		210,520
c) Retained earnings					
cb) Provision for shares in a controlling company or company with a majority interest		0.00			0
cd) Other retained earnings		524,478,663.69			463,000
			524,478,663.69		463,000
d) Unappropriated profit			145,169,232.50		136,150
				1,100,745,161.82	879,670
Total shareholders' equity and liabilities				**16,334,370,923.48**	**16,007,868**

1. Contingent liabilities					
a) From the endorsement of rediscounted bills			0.00		0
b) Liabilities from guarantees and indemnity agreements			1,391,054,883.40		1,268,172
c) Liability from sureties pledged as collateral security on behalf of third parties			0.00		0
				1,391,054,883.40	1,268,172
2. Other liabilities					
a) Liabilities from non-genuine sale and repurchase agreements			0.00		0
b) Placement and underwriting obligations			0.00		0
c) Irrevocable loan commitments			3,765,747,781.66		3,290,660
				3,765,747,781.66	3,290,660

Income Statement of HSBC Trinkaus & Burkhardt AG

for the period from 1 January to 31 December 2010

				2010	2009
	in €	in €	in €	in €	in € 000
1. Interest income from					
a) lending and money-market transactions		98,857,649.56			123,490
b) fixed-income securities and book-entry debt		82,551,939.88			79,609
			181,409,589.44		**203,099**
2. Interest expenses			58,957,941.30		86,769
				122,451,648.14	**116,330**
3. Current income from					
a) shares and other non-fixed-income securities			7,213,145.75		18,875
b) interests in subsidiaries			1,270,241.67		234
c) shares in affiliated companies			312,489.79		3,850
				8,795,877.21	**22,959**
4. Income from profit pooling, profit transfer and partial profit transfer agreements				47,536,070.51	26,622
5. Commission income			409,438,632.91		343,932
6. Commission expenses			165,726,448.98		140,056
				243,712,183.93	**203,876**
7. Net income from trading book				102,078,504.17	106,049
of which: transfer to special tax-deductible reserve					
pursuant to Section 340e (4) of the German Commercial Code:	12,500,000.00				(0)
8. Other operating income				36,024,437.35	32,279
10. General administrative expenses					
a) Personnel expenditure					
aa) Wages and salaries		182,277,191.13			158,255
ab) Social security contributions as well as expenses for post-employment benefits		23,272,807.69			30,912
of which			**205,549,998.82**		**189,167**
for retirement pensions	5,489,622.70				(15,555)
b) Other operating expenses			118,884,278.20		104,337
				324,434,277.02	**293,504**
11. Depreciation, adjustments and amortisation				9,268,191.02	9,059
12. Other operating expenses				20,029,284.45	18,948

				2010	2009
	in €	in €	in €	in €	in € 000
13. Depreciation and adjustments for receivables and certain securities as well as allocations to provisions for credit risks			1,489,568.59		1,274
14. Income from write-ups on loans and certain securities as well as from the release of provisions for credit risks			0.00		0
				1,489,568.59	**1,274**
15. Depreciation and adjustments for interests in subsidiaries, shares in affiliated companies and assets treated as securities			977,218.27		0
16. Income from write-ups of interests in subsidiaries, shares in affiliated companies and securities treated as fixed assets			0.00		957
				977,218.27	**957**
17. Expenses from the assumption of losses				9,239,065.90	5,607
19. Profit from ordinary business activity				195,161,116.06	180,680
20. Extraordinary income			2,331,313.19		0
21. Extraordinary expenses			3,302,758.94		0
22. Extraordinary result				**971,445.75**	**0**
23. Income taxes			59,812,934.75		54,730
24. Other taxes not included in item 12			107,503.06		100
				59,920,437.81	**54,830**
25. Income from assumption of losses				0.00	0
26. Profits transferred under profit pooling, profit transfer or partial profit transfer agreements				0.00	0
27. Net profit for the year				134,269,232.50	125,850
28. Profit brought forward from the previous year				10,900,000.00	10,300
				145,169,232.50	**136,150**
29. Withdrawals from share premium				0.00	0
30. Withdrawals from retained earnings				0.00	0
31. Withdrawals from profit participation capital				0.00	0
32. Allocations to revenue reserves				0.00	0
33. Replenishment of profit participation capital				0.00	0
34. Unappropriated profit				**145,169,232.50**	**136,150**

Notes to the Annual Financial Statements for 2010 of HSBC Trinkaus & Burkhardt AG

1. Basis of Preparation

The annual financial statements of HSBC Trinkaus & Burkhardt AG as at 31 December 2010 were prepared in accordance with the provisions of the German Commercial Code (HGB) in light of the requirements in the German Stock Corporations Act relating to the Bank's legal form in connection with the accounting rules for banks. The German Accounting Law Modernisation Act (BilMoG), which came into effect on 29 May 2009, was also applied.

The figures in brackets refer to 2009. The Bank did not exercise the option pursuant to section 67 (8) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB). The previous year's figures were adjusted to fit the changed breakdown for the balance sheet and income statement on the basis of the Accounting Law Modernisation Act. In the Notes this adjustment for the previous year's figures was not completely implemented.

The financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Trinkaus & Burkhardt AG. The consolidated financial statements are published in the electronic version of the Federal Gazette.

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London, E14 5HQ, Great Britain, registration number 617987. As at the end of 2010, HSBC Holdings plc indirectly held 80.4 % of HSBC Trinkaus & Burkhardt AG's capital.

2. Accounting and Valuation Methods

The valuation provisions pursuant to section 252 ff. of the German Commercial Code (HGB) were applied.

2.1 Foreign currency translation

All items denominated in a foreign currency are translated at the mean end-of-year forex spot exchange rate regardless of the date on which they arise or are due for settlement. Forward transactions are translated on the basis of the forward rate.

Foreign exchange transactions are measured in accordance with the provisions on special cover set out in section 340h of the German Commercial Code. All foreign exchange risks are actively managed as part of the respective trading activities. Positions related to foreign exchange risks are handled centrally in the Trading division (responsibility for positions), centrally monitored in the Market Risk Control department and reconciled on a daily basis in an overall position per currency irrespective of trading (risk monitoring and position reconciliation). There are no currency risks outside of trading.

2.2 Loans and advances

As a matter of principle, loans and advances arising in banking business are recognised at their nominal amount. Discounts and premiums are recorded pro rata temporis within interest income/expense.

There has been no change in the basis for measuring loans and advances. Accordingly, individual adjustments are made for acute loan loss risks and general adjustments for latent risks. The global value adjustments were calculated on the basis of the method used in accordance with IAS 39.

The adjustments calculated are deducted from the carrying amount of the loans and advances.

Reasonable provisions are set aside to allow for acute counterparty risks arising from contingencies (acceptance of guarantees and letters of credit, discounting letters of credit, loan commitment).

2.3 Securities

2.3.1 Trading book

Debt instruments and other fixed-income securities and shares and other non-fixed income securities, provided that they are held for trading, are carried at their risk-adjusted fair value (see also section 2.4 Trading Activities).

2.3.2 Liquidity provision

The measurement of the securities which are not allocated to the trading book is based on the strict lower-of-cost-or-market principle set forth in section 253 (3) of the German Commercial Code.

2.3.3 Fixed assets

There are no securities treated as fixed assets.

2.3.4 Valuation units

Bonds held for liquidity provisioning with a market value of €179.1 million were hedged by means of interest-rate swaps within a valuation unit in the form of micro-hedges pursuant to section 254 of the German Commercial Code. The bonds and swaps have maximum maturities until 2025.

The fluctuations in value that are induced by the market price are largely offset by the swaps. Fluctuations in market value due to risk or liquidity spreads are not hedged. The Bank applies the gross hedge presentation method. The losses accounted for by the ineffective portion of the valuation unit are recorded in the income statement and amounted to €0.3 million. Profits in excess of acquisition costs are not recognised.

The accounting of valuation units pursuant to section 254 of the German Commercial Code is linked to a number of prerequisites. These relate in particular to documentation of the hedging relationship and the effectiveness of the hedging. At the time of creation of a valuation unit the identification of the hedging and underlying transaction, the designation of the risk hedged and the procedure for checking the effectiveness of the hedging transaction are to be documented.

The Bank makes use of a linear regression model to assess the effectiveness of the hedging transaction. The model looks at the linear connection between the cumulative value changes in the underlying transaction and the cumulative value changes in the hedging transaction. Here the so-called coefficient of determination (R-squared) provides information on the quality of the regression and the incline of the regression line (slope) shows the direction of the correlation.

On the one hand, the proof of effectiveness means that a high level of effectiveness can be expected for the hedging relationship in future (prospective effectiveness). On the other hand, during the existence of the hedging relationship it must be regularly demonstrated that this was highly effective during the period under report (retrospective effectiveness). Sufficient effectiveness within the scope of the prospective test requires an R-squared of greater than 0.9 and a slope of between – 0.9 and – 1.1. An R-squared of greater than 0.8 and a slope of between – 0.8 and – 1.2 is adequate for the retrospective effectiveness test.

In the year under report the hedging transactions met the requirements of the retrospective and prospective effectiveness tests at all times.

2.3.5 Securities lending and repo transactions

In line with securities sold under agreements to repurchase, securities lent are reported in the balance sheet as securities. In line with securities bought under agreements to resell, securities borrowed are not reported as securities. Replacement obligations (short sales) are reported within trading liabilities even if such transactions are settled by the delivery of borrowed securities or securities bought under agreements to resell.

2.4 Trading activities

2.4.1 Recording

The trading book comprises debt instruments and other fixed-income securities, shares and other non-fixed-income securities, registered debt instruments and borrowers' note loans as well as precious metals, forward transactions and derivatives, including warrants and certificates.

The net positive and negative market value of derivative financial instruments of the trading book is reported under other trading assets and liabilities.

No financial instruments in the trading book were re-allocated in the year under report.

2.4.2 Valuation

All holdings in the trading portfolio are accounted for on the basis of the risk-adjusted fair value approach.

All financial instruments are measured at fair value at acquisition. This generally equates to the transaction price initially, i.e. the fair value of the consideration.

Subsequent measurement is at fair value, where publicly traded market prices are based on the assumption of an active market. If these are not available, measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used. These are mainly present value methods and option price models. In-house valuation routines have been developed for certain complex products. Due to the wide range of products offered, the measurement parameters imposed are as differentiated as possible, e.g. according to maturities, strike prices, etc.

The values resulting from the market valuation are reduced by adjustments for model risks as well as liquidity and counterparty risks and a value-at-risk discount. The value-at-risk discount takes adequate account of the risk of a short-term change in market prices. The calculation is based on a holding period of ten days and a confidence level of 99 %. The discounts are reported under trading book assets.

2.5 Interests in subsidiaries and shares in affiliated companies

Interests and shares in affiliated companies are reported at the lower of cost or permanently lower market value.

2.6 Property, plant and equipment

Property, plant and equipment are reported at cost and – if subject to ageing – depreciated on a systematic straight-line basis.

Minor-value assets with purchase costs of up to € 150.00 are written off in full in the year of their addition. Minor-value assets with purchase costs of between € 150.01 and € 1,000.00 are recorded as a summary item and written off over five years, in line with tax rules.

The value of permanently impaired assets is written down accordingly.

Buildings are subject to straight-line depreciation over a period of 50 years or a probable shorter remaining period of utilisation. Tenant fixtures are depreciated on a straight-line basis over the term of the lease.

Depreciation of operating and business equipment is calculated on the basis of useful lives determined in accordance with tax law.

2.7 Liabilities

Liabilities are reported at their settlement amount. Any discount or premium is reported within prepaid expenses or deferred income, as the case may be, and recorded pro rata temporis within net interest income/expense. Non-interest-bearing liabilities, e.g. zero coupon bonds, are marked up for interest accrued at the balance sheet date.

2.8 Provisions

2.8.1 Pension provisions

2.8.1.1 Pension obligations

The amended valuation provisions pursuant to the German Accounting Law Modernisation Act have been applied to pension obligations.

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method.

Provisions for pensions and similar obligations are discounted in a lump sum at the average market interest rate of the past seven years as published by Deutsche Bundesbank at the end of September 2010, resulting from an assumed residual maturity of 15 years (section 253 (2) sentence 2 of the German Commercial Code).

The valuation as at 1 January 2010 was based on the Heubeck mortality tables revised in 2005 and on the following parameters:

Parameters

in %	01.01.2010
Long-term interest rate	5.3
Projected rise in salaries	3.0
Projected pension adjustment	2.0
Projected inflation rate	2.0
Projected increase in contribution threshold amount for social security	2.5
Average fluctuation rate	4.0

The changeover in valuation methods results in additional expenditure of € 40.5 million for pension, early retirement and anniversary provisions as well as for pre-retirement provisions as at 1 January 2010.

Settlement value

in €m	01.01.2010	31.12.2009	Difference
Pension, early retirement and anniversary provisions	161.7	121.3	40.4
Partial retirement provision	2.4	2.3	0.1
Total	164.1	123.6	40.5

2.8.1.2 Cover pool

The Bank holds separate cover pools for pension, early retirement and anniversary obligations on the one hand and partial retirement obligations on the other. The assets comply with the requirements of section 246 (2) sentence 2 clause 1 of the German Commercial Code. The assets are carried at fair value.

Cover pool

in €m	Fair value 01.01.2010	Book value 31.12.2009	Write-up
Cover pool for pensions	174.7	148.7	26.0
Cover pool for partial retirement	1.7	1.4	0.3
Total	176.4	150.1	26.3

In compliance with section 253 (1) sentence 4 of the German Commercial Code, the value of the cover pool was offset against the provisions for pensions and similar obligations. The Bank exercised the option pursuant to section 67 (1) sentence 1 of the Introductory Act to the German Commercial Code (EGHGB).

The difference from offsetting the ongoing pensions against the cover pool in the amount of € 14.0 million will be distributed at the latest by 31 December 2024.

Netting the provisions for pensions, early retirement and anniversary against the corresponding cover pool results overall in excess cover of € 27.1 million. This results from netting the fair value of the cover pool and settlement value of pension obligations amounting to € 13.1 million and from the difference of € 14.0 million.

This excess cover is recorded in the balance sheet under "Difference arising on the asset side from the netting of assets".

Netting the pre-retirement provision against the corresponding cover pool results in a shortfall and is still reported under provisions.

Pension obligations n the amount of € 18.5 million still exist as part of the "Pension payment instead of cash payment" model. The obligations have been offset against reinsurance claims from a group life insurance policy amounting to € 15.0 million.

2.8.2 Other provisions
Provisions are calculated pursuant to section § 253 (1) sentence 2 of the German Commercial Code on the basis of the required settlement amount in accordance with the principles of prudence. Future price and cost increases are included.

Those provisions with a residual maturity of more than one year are discounted with the interest rates pursuant to section 253 (2) of the German Commercial Code. The discount for the corresponding maturity is calculated according to the interest rates of the Bundesbank interest rate curve as at 30 September 2010. This interest rate curve is a zero coupon interest swap curve calculated on the basis of euro-based fixed-interest swaps.

The Bank exercised the option pursuant to section 67 (1) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB).

2.9 Compensation in the income statement

Expenses and income arising in connection with provisions for credit risks are compensated for in the income statement.

3. Notes on the Balance Sheet

3.1 Analysis of residual maturity

Loans and advances to banks*

in €m		31.12.2010	31.12.2009
a)	Payable on demand	330.1	708.3
b)	Other loans and advances	139.2	1,147.2
	Payable in		
	up to three months	118.8	971.7
	more than three months up to one year	11.2	13.0
	more than one year up to five years	9.2	61.6
	more than five years	0.0	100.9
Total		**469.3**	**1,855.5**

* The previous year's figures also include payables and receivables that are reported as long or short securities in the trading book pursuant to the German Accounting Law Modernisation Act (BilMoG).

Loans and advances to customers*

in €m	31.12.2010	31.12.2009
Payable in		
up to three months	1,643.4	1,661.1
more than three months up to one year	276.3	209.3
more than one year up to five years	636.9	1,234.8
more than five years	365.1	1,412.6
Total	**2,921.7**	**4,517.8**

* The previous year's figures also include payables and receivables that are reported as long or short securities in the trading book pursuant to the German Accounting Law Modernisation Act (BilMoG).

Deposits by banks*

in €m		31.12.2010	31.12.2009
a)	Payable on demand	374.4	630.1
b)	With agreed maturities or notice periods	806.7	2,305.6
	Payable in		
	up to three months	713.5	2,235.6
	more than three months up to one year	74.7	52.0
	more than one year up to five years	17.7	13.9
	more than five years	0.8	4.1
Total		**1,181.1**	**2,935.7**

* The previous year's figures also include payables and receivables that are reported as long or short securities in the trading book pursuant to the German Accounting Law Modernisation Act (BilMoG).

Customer accounts*

in €m			31.12.2010	31.12.2009
a)	Savings deposits		43.1	33.6
	Payable in			
		up to three months	41.8	32.4
		more than three months up to one year	0.1	0.1
		more than one year up to five years	1.2	1.1
		more than five years	0.0	0.0
b)	Other liabilities		7,993.1	7,912.7
	ba)	Payable on demand	5,419.2	4,659.5
	bb)	With agreed maturities or notice periods	2,573.9	3,253.2
		Payable in		
		up to three months	2,146.7	2,123.0
		more than three months up to one year	194.8	175.2
		more than one year up to five years	83.6	202.9
		more than five years	148.8	752.1
Total			**8,036.2**	**7,946.3**

* The previous year's figures also include payables and receivables that are reported as long or short securities in the trading book pursuant to the German Accounting Law Modernisation Act (BilMoG).

3.2 Affiliated companies – receivables and liabilities

in €m	31.12.2010	31.12.2009
Loans and advances to banks*	149.1	588.1
Loans and advances to customers*	80.5	83.6
Shares	0.0	14.0
Debt instruments	450.7	199.9
Trading portfolio, capitalised	171.8	435.7
Deposits by banks*	830.5	2,148.6
Customer accounts*	53.1	32.9
Securitised liabilities	0.0	0.0
Trading portfolio, deferred	0.0	0.0
Subordinated debt	0.0	0.0

* The previous year's figures also include payables and receivables that are reported as long or short securities in the trading book pursuant to the German Accounting Law Modernisation Act (BilMoG).

3.3 Subsidiaries – receivables and liabilities

in €m	31.12.2010	31.12.2009
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.5	0.7
Debt instruments	0.0	0.0
Deposits by banks	0.0	0.0
Customer accounts	0.0	0.0
Securitised liabilities	0.0	0.0
Subordinated debt	0.0	0.0

3.4 Trust activities

Trust assets and liabilities break down as follows:

Trust assets

in €m	31.12.2010	31.12.2009
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.8	0.9
Equity interests held in trust	152.0	149.5
Total	152.8	150.4

Trust liabilities

in €m	31.12.2010	31.12.2009
Deposits by banks	0.0	0.0
Customer accounts	152.8	150.4
Total	152.8	150.4

3.5 Foreign currency

As of 31 December 2010, assets denominated in a foreign currency were valued at € 1,079.7 million (€ 1,073.5 million). Total liabilities denominated in a foreign currency came to € 1,619.9 million (€ 1,733.6 million).

3.6 Loans and advances to customers

This item includes loans and advances with an indefinite settlement period in the amount of € 90.6 million (€ 157.8 million).

3.7 Debt instruments and other fixed-income securities

The liquidity reserve came to € 2,345.7 million as of 31 December 2010 (€ 2,169.4 million).

Securities with a carrying amount of € 34.0 million (€ 32.0 million) are eligible for listing on an exchange but are not listed.

Debt instruments with a nominal value of € 1,138.8 million (€ 1,893.6 million) were available for use as collateral for peak funding facilities as at the balance sheet date.

Fixed-rate securities with a nominal value of € 268.0 million (€ 387.8 million) had been pledged as security for transactions on the Eurex and for securities lending operations.

Bonds and other debt instruments with a carrying amount of € 571.6 million (€ 192.4 million) will be due for settlement in 2011.

3.8 Shares and other non-fixed-income securities

The liquidity reserve came to € 339.7 million as of 31 December 2010 (€ 366.3 million).

This item includes securities eligible for listing on an exchange of € 80.4 million (€ 115.2 million). Securities with a carrying amount of € 29.0 million (€ 45.9 million) are eligible for listing on an exchange but are not listed. Securities not eligible for listing on an exchange are valued at a total of € 259.3 million (€ 251.1 million).

3.9 Units in investment funds

Fund type (in €m)	Fair value	Book value	Difference	2010 payout	Can be returned at any time
Equity funds					
HSBC Trinkaus discount certificates	10.4	10.0	0.4	0.0	Yes
HSBC Trinkaus LAPLACE Global Equity	3.9	3.9	0.0	0.0	Yes
HSBC Multi Markets Select	1.1	1.0	0.1	0.1	Yes
HSBC Trinkaus Aktienstruktur Europa	6.1	5.9	0.2	0.0	Yes
HSBC Lingohr – Global Equity	9.3	5.0	4.3	0.0	Yes
Fixed-income funds					
HSBC Trinkaus Gen	25.4	25.0	0.4	1.6	No
HSBC Trinkaus Euro Value Bond	21.4	21.4	0.0	7.8	Yes
HSBC Trinkaus ABS	1.4	1.4	0.0	1.1	No
Special funds					
Fonds PRT (cover pool)	177.4	177.4	0.0	5.1	No
Select INKA	137.9	137.9	0.0	2.0	No
IGC INKA	109.6	109.6	0.0	4.4	No

In the year under report the Company did not refrain from writedowns in accordance with section 253 (3) sentence 4 of the German Commercial Code. Writedowns on the fair value were performed for all funds whose current fair value is below the carrying amount.

For the fixed-income fund HSBC Trinkaus ABS, payouts from its material assets totalling € 1.1 million were made in 2010. For all other investment funds, only payouts from earnings were made. All units in investment funds are held in the liquidity reserve.

3.10 Trading portfolio, capitalised

in €m	31.12.2010	31.12.2009
Positive fair value of derivative financial instruments	1,765.9	942.5
Tradable receivables	2,263.9	1,945.6
Debt instruments and other fixed-income securities	4,030.1	4,583.7
Equities and other non-fixed-income securities	1,004.6	832.1
Securities in the derivatives business	296.2	419.1
Reverse repos	72.4	72.3
Discounts	–42.4	–28.0
Total	**9,390.7**	**8,767.3**

Bonds and other fixed-income securities with a carrying amount of € 160.2 million (€ 463.8 million) are eligible for listing on an exchange but are not listed.

Debt instruments with a nominal value of € 2,734.9 million (€ 2,985.5 million) were available for use as collateral for peak funding facilities as at the balance sheet date. As in the previous year, no open market transaction with Deutsche Bundesbank was outstanding as at the balance sheet date.

As in the previous year, no securities had been sold under agreements to repurchase as at the balance sheet date. Fixed-rate securities with a nominal value of €554.5 million (€608.6 million) had been pledged as security for transactions on the Eurex and for securities lending operations.

Credit balances with a nominal amount of €4.1 million (€11.4 million) were pledged as collateral for securities loan transactions as at the balance sheet date.

Bonds and other debt instruments with a carrying amount of €1,195.0 million (€1,012.4 million) will be due for settlement in 2011.

Shares and other non-fixed-income securities include securities eligible for listing on an exchange of €922.8 million (€756.3 million).

As in the previous year, all securities eligible for listing are listed on an exchange. Securities not eligible for listing on an exchange are valued at a total of €81.8 million (€75.8 million).

Equities with a carrying amount of €76.4 million (€3.4 million) have been pledged as collateral for securities lending operations. As at the balance sheet date, equities with a carrying amount of €92.6 million (€185.9 million) had been lent.

As in the previous year, there were no transactions with shares and other non-fixed-income securities sold under agreements to repurchase.

3.11 Subordinated assets

in €m	31.12.2010	31.12.2009
Loans and advances to banks	0.0	0.2
Loans and advances to customers	5.0	7.6
Debt instruments		
Other issuers	71.6	66.8
Own debt instruments	0.0	0.0
Equities and other non-fixed-income securities	0.0	0.0
Trading portfolio, capitalised		
Debt instruments and other fixed-income securities	17.9	0.8
Shares and other non-fixed-income securities	4.5	0.1

3.12 Interests in subsidiaries and shares in affiliated companies

The interests in subsidiaries include listed securities with a carrying amount of €10.4 million (€11.6 million). As in the previous year, shares in affiliated companies do not include any shares eligible for listing on an exchange.

3.13 Shareholdings

HSBC Trinkaus & Burkhardt AG holds direct or indirect shareholdings of at least 20 % in each of the following companies, most of which are fully consolidated:

	Registered office	Percentage of capital held in the company in %	Shareholders' equity of the company € 000	Net profit 2010 € 000
Banks and companies similar to banks				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	0[2]
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	108,542	10,640
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,715[3]	908[3]
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	24,000	0[2]
HSBC INKA Investment-AG TGV[7]	Düsseldorf	100.0	1,981	7
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	4,642	843
HSBC Transaction Services GmbH[8]	Düsseldorf	100.0	13,532	105
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	0[2]
HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments OHG[5]	Düsseldorf	10.0	276,217	1,167
HSBC Global Asset Management Deutschland GmbH	Düsseldorf	100.0	5,001	0[2]
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	720	430
HSBC Global Asset Management (Switzerland) AG[5]	Zurich	50.0	848	101
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	0[2]
Specially commissioned companies				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	0[2]
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	3,010	–5,812
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	4
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	36	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	65	6
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	–13[4)6]	–14[4)6]
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	39	11
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH	Düsseldorf	100.0	21	2
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0[2]
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,671	1,644
HSBC Trinkaus Private Wealth Gmbh	Düsseldorf	100.0	261	0[2]

	Registered office	Percentage of capital held in the company in %	Shareholders' equity of the company € 000	Net profit 2010 € 000
Property companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	2,762	–634
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,809	309
Other companies				
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	5,685 [6)]	514 [6)]
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	28	2
SINO AG [5)]	Düsseldorf	26.6	6,920	2,709 [6)]

[1] Including unappropriated profit/loss after distribution of profits
[2] Profit and loss transfer agreement
[3] Exchange rate: EUR/USD = 1.3384
[4] Exchange rate: EUR/CAD = 1.3360
[5] At equity consolidated
[6] Figures as at 31 December 2009
[7] Company shares
[8] Renamed, formerly International Transaction Services GmbH

3.14 Fixed assets

Property, plant and equipment comprise business and operating equipment with a carrying amount of € 18.8 million (€ 17.6 million). The Bank owns 20 parking places in a garage complex at Kö-Center, Düsseldorf, which it uses in its own business activities. In 2010, minor-value assets of € 0.5 million (€ 0.6 million) were written off immediately in the financial statements of the AG, i.e. the parent company.

Movements in fixed assets are analysed in Appendix 1.

3.15 Treasury shares

As in the previous year, HSBC Trinkaus & Burkhardt AG did not hold any treasury shares at the end of 2010. As of the balance sheet date, 606 (370) shares in HSBC Trinkaus & Burkhardt AG were pledged to the Bank as collateral in connection with a loan transaction. This figure is equivalent to 0.002 % (0.001 %) of its share capital.

As part of market-smoothing operations in connection with the authorisation provided by the shareholders at the Annual General Meeting, the AG acquired a total of 52,376 (78,458) treasury shares in the course of 2010, equivalent to 0.19 % (0.30 %) of its share capital, which it then resold. The average purchase price per share came to € 98.27 (€ 87.37). The average selling price stood at € 90.63 (€ 87.47). Expenses resulting from these transactions are included in the net income of the trading portfolio. The largest holding on any day was 45,000 shares (72,421 shares) or 0.16 % (0.28 %) of the share capital.

3.16 Other assets

Other assets primarily comprise receivables from affiliated companies of € 56.7 million (€ 39.6 million) and tax reimbursement claims of € 2.2 million (€ 22.4 million). As of the balance-sheet date, no cash collateral for futures contracts (€ 11.6 million) had been received.

3.17 Deferred income tax assets

This item includes deferred income tax assets of € 37.1 million (€ 34.9 million) arising from valuation differences between commercial and tax law.

Deferred income tax liabilities of € 4.6 million arise from the valuation differences between commercial and tax law of the CTA cover pool. They were netted against deferred income tax assets. Deferred tax assets going beyond netting were capitalised. Deferred tax assets essentially result from the differences in the valuation of customer receivables, shares and debentures in line with tax rules totalling € 16.5 million and of pension and anniversary obligations in the amount of € 16.6 million. Differences in the discount rates of provisions under tax and commercial law led to further deferred tax assets of € 7.4 million.

3.18 Fund for general banking risks

Pursuant to Section 340 e (4) in conjunction with section 340 g of the German Commercial Code, the fund for general banking risks was allocated an amount of € 12.5 million (€ 0.0 million) in 2010. The addition was netted against net income in the trading portfolio.

3.19 Trading portfolio, deferred

in €m	31.12.2010	31.12.2009
Negative fair value of derivative financial instruments	2,173.5	1,584.4
Discount certificates, borrower's note loans, debentures and warrants	2,860.7	2,593.3
Collateral securities lending	4.1	11.4
Securities in the derivatives business	57.0	74.4
Covering purchase obligations from short sales	84.1	17.4
Total	5,179.4	4,280.9

3.20 Prepaid expenses

Prepaid expenses comprise:

in €m	31.12.2010	31.12.2009
Discounts from liabilities	2.3	2.5
Premiums from receivables	0.8	2.5

Deferred income comprises:

in €m	31.12.2010	31.12.2009
Discounts from receivables	0.2	0.2
Premiums from liabilities	1.7	2.3

3.21 Other liabilities

Other liabilities primarily comprise tax liabilities of € 24.7 million (€ 9.1 million), bullet warrants and certificates totalling € 20.2 million together with deferred interest on profit participation capital and subordinated liabilities of € 11.8 million (€ 12.0 million).

3.22 Provisions

3.22.1 Provisions for pensions and similar obligations

Various pension payment and benefit regulations exist for employees depending on the date the employee joined the Bank. Old-age, early retirement, invalidity as well as surviving dependent's pensions are granted within the framework of all plans. The amount of the pension is geared substantially to the employee's pensionable length of service and basic salary. In addition, for part of the benefit claims, the amount paid depends on the contribution assessment ceiling in the statutory pension scheme.

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. In addition, there are pension provisions calculated at an annuity of 7.5 % p.a. as well as further pension provisions calculated at an annuity of 6.0 % p.a.

The valuation is based on the Heubeck mortality tables revised in 2005 as well as on the following parameters:

Parameters

in %	31.12.2010	31.12.2009
Long-term interest rate	5.2	5.5
Projected rise in salaries	3.0	3.0
Projected pension adjustment	2.0	2.0
Projected inflation rate	2.0	2.0
Projected increase in contribution threshold amount for social security	2.5	2.5
Average fluctuation rate	4.0	4.0

Development of partial retirement obligations

in €m	2010
Partial retirement obligations as at 01.01.	2.4
Service cost	0.2
Interest expenditure	0.1
Partial retirement obligations as at 31.12.	2.7

Development of the cover pool for partial retirement obligations

in €m	2010
Fund assets as at 01.01.	1.7
Write-ups	0.1
Payments in/payments out	0.0
Cover pool as at 31.12.	1.8
Income from the cover pool	0.1

The cover shortfall is shown under provisions.

Development of pension obligations

in €m	2010
Pension obligations as at 01.01.	147.6
Reversals (term of service income)	–6.5
Interest expenditure	11.1
Allocation from the excess	3.0
Pension obligations as at 31.12.	155.2

Development of the cover pool for pension obligations

in €m	2010
Fund assets as at 01.01.	174.8
Write-ups	4.8
Payments in/payments out	0.0
Cover pool as at 31.12.	179.6
income from the cover pool	4.9

The Bank exercised the option pursuant to section 67 (1) of the Introductory Act to the German Commercial Code. This results in a difference from the netting of current pensions against the cover pool totalling € 14.0 million, which will be spread out over a maximum of 15 years.

In 2010, €3.0 million of the difference were reversed In favour of the income statement and allocated to pension provisions.

The surplus cover of € 24.4 million is reported in the item asset-side difference from the netting of assets.

Furthermore, reinsurance claims totalling € 16.2 million from a group life insurance policy are netted against the provision for pension obligations totalling € 18.1 million in the context of the deferred compensation model.

Pursuant to Section 268 (8) of the German Commercial Code in conjunction with section 246 (2) sentence 2 and section 253 (1) sentence 4 of the German Commercial Code, this works out to the following amount that is blocked from distribution:

Amount blocked from distribution

in €m	Fair value 31.12.2010	Historical purchase costs	Deferred taxes	Amount blocked from distribution
Cover pool for pensions	175.6	144.7	4.9	26.0
Cover pool for partial retirement	1.8	1.5	0.0	0.3
Total	**177.4**	**146.2**	**4.9**	**26.3**

3.22.2 Tax provisions

Deferred income tax liabilities of €4.6 million arise from the valuation differences between the cover pool according to commercial and tax law. They were netted against deferred income tax assets.

3.22.3 Other provisions

in €m	31.12.2010	31.12.2009
Provisions for credit risks	2.0	3.1
Personnel provisions	102.6	88.3
Other provisions	51.6	47.1
Total	**156.2**	**138.5**

Interest income from the discounting of provisions comes to €2.1 million for 2010.

3.23 Subordinated debt

Liabilities include subordinated debt instruments and borrower's note loans with a total value of €278.4 million (€284.4 million). In 2010, interest expenditure on all subordinated debt came to €13.1 million (€14.1 million).

No single debt instrument issued exceeds 10 % of the total subordinated debt. There are no premature repayment obligations.

Interest rates on subordinated debt

Interest rates	Nominal amount (in €m)
4 % to less than 5 %	100.2
5 % to less than 6 %	153.2
Fixed rates	253.4
Variable rates	25.0
Total	**278.4**

Repayment of subordinated debt

Term	Nominal amount (in €m)
Up to 1 year	25.0
One year up to five years	55.2
More than five years	198.2
Total	**278.4**

Ranking arrangements

All subordinated debt has a lower ranking than the non-subordinated claims held by other creditors to payment of the Bank's capital. This subordination applies in the event of liquidation, insolvency or any procedures to avert insolvency.

Subordinated debt of €263.4 million (€265.8 million) is included in the calculations of liable equity in accordance with section 10 (5a) of the German Banking Act.

Profit participation capital
In accordance with the authorisation granted by the shareholders on 30 May 2006, the AG issued registered profit participation certificates of €100.0 million in four tranches in September 2006. The term of the registered profit participation certificates for €6.0 million and €5.0 million, respectively, expires on 31 December 2016. The annual dividend ratio stands at 4.77 % and 4.78 %, respectively. The term of the registered profit participation certificates for €52.0 million and €37.0 million, respectively, expires on 31 December 2020. The annual dividend ratio stands at 4.89 % and 4.91 %, respectively. The nominal amount is repaid six months after expiry subject to the provisions governing participation in an unappropriated loss.

Profit participation capital of €100.0 million satisfies the conditions stipulated in section 10 (5) of the German Banking Act and is therefore acknowledged for regulatory purposes as Tier 2 capital.

The terms and conditions applicable to all issues stipulate that the claims under the securities have a lower ranking than the non-subordinated claims held by all of HSBC Trinkaus & Burkhardt AG's other creditors. They have the same ranking as all other subordinated debt held by HSBC Trinkaus & Burkhardt AG. In accordance with the terms and conditions of issue, the registered profit participation certificates participate in any unappropriated loss.

In the event of any amendment to tax legislation, HSBC Trinkaus & Burkhardt AG is entitled to terminate the registered profit participation certificates. The bearers of the profit participation certificates have no right of termination and/or premature repayment of their capital.

3.24 Shareholders' equity

Subscribed capital comes to €75.4 million and is divided into 28,107,693 no-par-value shares. Capital reserves stand at €355.7 million as at the balance sheet date.

In accordance with a resolution passed by the shareholders at the Annual General Meeting of 17 June 2008, the Management Board is authorised to increase the share capital by up to €35.0 million on or before 31 May 2013 with the Supervisory Board's approval by issuing new bearer shares on a cash or non-cash basis once or repeatedly (authorised capital).

Based on this authorisation, the Management Board of HSBC Trinkaus & Burkhardt AG decided on 25 May 2010 to increase the share capital for cash with subscription rights of the Company's shareholders. The share capital was increased by around €5.4 million through the issue of 2,007,693 new bearer shares with no par value by using some of the authorised capital. Subscription took place at a ratio of 13 for 1 at a subscription price of €75.00.

At its meeting on 7 June 2010, the Supervisory Board approved the capital increase.

The capital increase was successfully completed on 7 July 2010. Subscribed capital increased by €5.4 million to €75.4 million. The capital reserve increased by €145.2 million to €355.7 million.

Pursuant to the resolution passed at the Annual General Meeting of 8 June 2010, an amount of €65.3 million was distributed from the unappropriated profit for 2009 (€136.2 million). A sum of €60.0 million was retained.

A profit of €10.9 million was carried forward. In line with the statements made by the IDW, HFA 27 and HFA 28, the deferred taxes of the subsidiary companies were for the first time accounted for within the Bank (fiscal unity parent) in 2010. The amount of €1.5 million was added to retained earnings. Retained earnings stand at €524.5 million.

The Management Board is now authorised to increase the share capital by up to €29.6 million on or before 31 May 2013, with the Supervisory Board's approval, through issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

There is contingent capital of up to €35.0 million through the issue of bearer shares. The contingent capital may be utilised only to the extent that the holders of convertible and option rights make use of such rights under the convertible or option bonds or profit participation right with conversion and option rights to be issued on or before 31 May 2013 (contingent capital).

As of the balance sheet date, the unrealised reserves required to be disclosed in accordance with section 340c (3) of the German Commercial Code and subject to allocation to the Bank's liable equity in accordance with section 10 of the German Banking Act stood at €33.8 million (€33.8 million) in fixed-income securities held in the investment book and €2.4 million (€13.2 million) in non-fixed-income securities held in the investment book.

As in earlier years, HSBC Trinkaus & Burkhardt AG did not make use of the option to assign unrealised reserves in land and buildings as Tier 2 capital in accordance with section 10 (4b) of the German Banking Act to its liable equity.

The total of amounts blocked from distribution within the meaning of Article 268 (8) of the German Commercial Code comes to €63.3 million. It includes an amount blocked from distribution from the time valuation of the CTA cover pool in the amount of €26.3 million and from the capitalisation of deferred taxes of €37.0 million.

Maximum amount to be paid out	31.12.2010
Equity portions available to cover amounts within the meaning of Section 268 (8) of the German Commercial Code	669.6
Total amount blocked from distribution	63.3
Maximum amount to be paid out	**606.3**

4. Notes on Contingencies

4.1 Contingent liabilities

in €m	31.12.2010	31.12.2009
From the endorsement of rediscounted bills	0.0	0.0
Liabilities from guarantees and indemnities	1,391.1	1,268.2
Liability from sureties pledged as collateral security on behalf of third parties	0.0	0.0
Total	1,391.1	1,268.2

4.2 Other liabilities

in €m	31.12.2010	31.12.2009
Liabilities from non-genuine sale and repurchase agreements	0.0	0.0
Placement and underwriting obligations	0.0	0.0
Irrevocable loan commitments	3,765.7	3,290.7
Total	3,765.7	3,290.7

The quality of contingent liabilities and loan commitments is subject to constant monitoring by means of internal rating procedures. The irrevocable loan commitments include three individual commitments of material significance with respect to overall operations. The individual amounts are each between € 113.0 million and € 118.0 million.

5. Disclosures

5.0 Disclosures on other contingencies and financial commitments that are not apparent in the balance sheet

The liable amounts from equity investments in cooperatives remained unchanged at €0.2 million at the end of the year.

The obligation to provide additional funds arising from the interests in subsidiaries in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, totals €3.7 million and is associated with a directly enforceable guarantee for compliance with the obligation of the other shareholders forming part of the Federal Association of German Banks (Bundesverband deutscher Banken e. V.) to provide additional funds.

The Bank is involved in the leasing business exclusively as a lessee. All leasing contracts signed are operating lease agreements. In operating lease agreements, all risks and benefits attendant upon ownership remain with the lessor, which also carries the leased item on its balance sheet. The lease payments are reported as rental payments under administrative expenses.

Obligations from rental, lease and leasing agreements

in €m	31.12.2010	31.12.2009
Up to 1 year	24.2	23.9
Over 1 year up to 5 years	23.1	29.5
Over 5 years	9.1	9.5
Total	**56.4**	**62.9**
of which towards affiliated companies	7.8	8.1

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of €3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of €0.5 million is still outstanding.

The Bank has outsourced the operation of the credit register for card payments and the establishment and operation of an account documentation office to external third parties, pursuant to section 24 c of the German Banking Act, along with services in the area of securities settlement and administration services to its subsidiary HSBC Transaction Services GmbH.

The outsourced units do not have a material influence on the Bank's financial situation.

6. Transactions Exposed to Market Risk

6.1 Market risks

Market risk is understood as the extent to which the market value of a financial instrument can rise or fall to the Bank's disadvantage based on changes to market price parameters. Market risk includes exchange rate risk, interest rate risk as well as equity and other price risks. Market risks arise primarily from interest rate, equity and foreign exchange trading activities as well as to a lesser extent from commodities where there is no physical delivery.

Value-at-risk approaches are used to measure market risks in our trading book. Value-at-risk is understood to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. The value-at-risk model was extended in 2010 with respect to commodity and (credit) spread risks and approved by BaFin. It is still based on an historical simulation of risk factors over a period of 500 equally weighted trading days and covers interest rate, equity, foreign exchange and volatility risk. The complete revaluation of all positions is carried out to reflect changes in the market parameters. Included in interest rate risk is both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from corporate bonds in the model as they are of no importance to our proprietary trading business.

6.2 Transactions with derivative financial instruments

		Nominal amounts due for settlement in		
in €m		up to 1 year	over 1 year up to 5 years	over 5 years
Interest-rate-related transactions				
OTC products	FRAs, CAPs, FLOORs	432	2,640	950
	Interest-rate swaps	3,606	12,810	8,406
	Interest-rate options	133	1,298	459
	Forward transactions	292	100	712
Exchange-traded products	Interest-rate futures	2,020	1,831	0
	Interest-rate options	0	0	0
	Total	**6,483**	**18,679**	**10,527**
Currency-related transactions				
OTC products	Foreign exchange contracts *	25,855	1,579	4
	Cross-currency swaps	36	144	65
	Foreign exchange options *	2,716	56	0
Exchange-traded products	Currency futures	0	0	0
	Total	**28,607**	**1,779**	**69**
Equity/index-related transactions				
OTC products	Equity/index-related options	94	138	0
	Forward transactions	1	1	0
	Equity swaps	119	44	30
Exchange-traded products	Equity/index-related futures	816	30	0
	Equity/index-related options	3,424	1,699	312
	Total	**4,454**	**1,912**	**342**
Total financial derivatives		**39,544**	**22,370**	**10,938**

* incl. gold options and forward transactions

The following are included as risk factors in particular:

1. Cash share prices and share indices
2. Spot exchange rates incl. gold prices
3. Commodity prices (various kinds of oil, silver)
4. Zero interest rates for typical maturities from swap, government bond and Pfandbrief yield curves
5. Equity and equity index option volatilities for typical maturities
6. Volatilities of options on Bundesanleihen for typical maturities
7. Cap/floor volatilities for typical maturities
8. Swaption volatilities for typical maturities

The values at risk are as follows:

in €m	31.12.2010	31.12.2009
Interest rate risks	2.6	2.9
Foreign exchange risks	0.3	0.2
Equity/index-related risks	1.8	4.6
Credit spread risks[1]	3.7	0.0
Commodity risks[1]	0.2	0.0
Total potential market risk	**4.9**	**4.7**

[1] Computed only from 17 September 2010 on; no previous year figures available

	Nominal amounts		Market value			
			Positive		Negative	
	Total 2010	Total 2009	Total 2010	Total 2009	Total 2010	Total 2009
	4,022	1,300	35	0	33	0
	24,822	27,533	880	847	1,139	1,110
	1,890	7,253	25	74	43	103
	1,104	1,191	19	7	2	8
	3,851	586	0	3	0	1
	0	0	0	0	0	0
	35,689	**37,863**	**959**	**931**	**1,217**	**1,222**
	27,438	23,851	401	339	371	324
	245	175	11	7	11	7
	2,772	2,376	35	40	34	42
	0	0	0	0	0	0
	30,455	**26,402**	**447**	**386**	**416**	**373**
	232	278	33	61	28	47
	2	283	0	139	55	204
	193	116	5	0	20	15
	846	502	0	4	0	0
	5,435	4,841	322	390	438	574
	6,708	**6,020**	**360**	**594**	**541**	**840**
	72,852	**70,285**	**1,766**	**1,911**	**2,174**	**2,435**

Breakdown of market values by counterparty

		31.12.2010	
in €m		Positive	Negative
OECD	Banks	1,090	1,450
	Financial institutions	108	70
	Miscellaneous	520	640
Non-OECD	Banks	41	10
	Miscellaneous	7	4
Total		1,766	2,174

Description of transactions with derivatives in accordance with section 36 of the Bank Accounting Regulations follows the recommendations of the Accounting Committee of the German Federal Association of Banks. In accordance with international standards, the market values stated reflect the replacement costs as at the balance sheet date in the event of counterparty default regardless of their credit rating and any netting arrangements.

Most of the transactions with derivatives are accounted for by trading activity.

7. Notes on the Income Statement

7.1 Breakdown of income items by geographic market

The total of interest income, current income, income from profit pooling and profit transfer arrangements, commission income and other operating income stands at €683.2 million (€628.9 million). All income was generated in Germany. For this purpose, income is allocated to a geographic market on the assumption that it was generated at the registered office of the branch in question. Income from profit pooling and transfer arrangements includes an amount of €14.3 million (€7.4 million) generated by affiliated companies in Luxembourg.

7.2 Administrative and intermediary services provided for third parties

The administrative and intermediary services provided for third parties by HSBC Trinkaus & Burkhardt AG are for the most part confined to asset and portfolio management as well as advisory services.

7.3 Auditor fees

Regarding the auditor fees, reference is made to the IFRS-based consolidated financial statements of the Bank as the Group parent company.

7.4 Net trading income

Net trading income amounts to €102.1 million (€106.0 million).

In reference to the IDW statement on accounting requirement BFA 2 dated 3 March 2010, trading interest income and expenses, the dividend income and commissions were recognised in accordance with the Bank's internal management under the item net trading income.

7.5 Other operating income

Other operating income of €36.0 million (€32.3 million) primarily comprises the proceeds of €27.4 million from costs recharged to consolidated companies and income of €1.2 million from the subletting of office space.

This item also includes off-period income of €6.2 million from the reversal of provisions no longer required.

7.6 Other operating expenses

Other operating expenses of €20.0 million (€18.9 million) comprise €6.0 million for a placement guarantee for a real estate fund and €5.5 million from allocation to provisions for ex gratia services and legal risks.

7.7 Extraordinary expenses and income

The extraordinary expenses of €3.3 million and the extraordinary income of €2.3 million include, pursuant to section 67 (7) of the Introductory Act to the German Commercial Code, all expenses and income occurring as a result of transition to the legal position once the German Accounting Law Modernisation Act came into force on 1 January 2010.

7.8 Income taxes

Income taxes include corporation tax, trade tax and the solidarity surcharge amounting to € 59.8 million. The tax expense includes deferred taxes.

Tax reconciliation statement

in €m	Amount	Tax rate
Profit before income tax	194.2	
Estimated tax expense (standard tax rate)	60.9	31.40 %
Reconciliation:		
Deviation from the tax assessment basis	–4.7	
Off-period taxes	+3.5	
Recognition and measurement of deferred tax assets	+0.1	
Actual tax expense	59.8	
Effective tax rate		30.82 %

8. Other Disclosures

8.1 Staff

Annual average	31.12.2010	31.12.2009
Employees subject to pay-scale agreements	622	626
Employees not subject to pay-scale agreements	816	772
Trainees	34	34
Total	**1,472**	**1,432**
of which:		
female	596	593
male	876	839

8.2 Liability under letters of comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf – are in a position to fulfil their contractual obligations.

In addition, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general or Managing Partners in the fully consolidated limited partnerships and the Trinkaus real estate fund companies and Trinkaus private equity companies for all third-party claims asserted against them on account of their legal status or activity as general partner in the partnership in question provided that such general and Managing Partners are natural persons.

8.3 Related party disclosures

No transactions that were not in line with market standard were carried out with related parties in the year under report.

8.4 Executive Bodies of HSBC Trinkaus & Burkhardt AG

The names of the members of the Management Board and of the Supervisory Board are listed in Appendix 2. The offices held by these persons are presented in Appendix 3.

8.5 Advances and loans to members of the Executive Bodies

As in the previous year, no advances or loans had been granted to any members of the Management Board or the Supervisory Board as at the balance sheet date. There were contingencies towards third parties in favour of members of the executive body only in the context of discharge for natural persons as presented in section 8.2.

8.6 Remuneration of the Executive Bodies of HSBC Trinkaus & Burkhardt AG

The basic elements of the remuneration system are described in the management report. The remuneration components for Management Board members are set out below and are in accordance with DRS 17. In accordance with the resolution passed at the Annual General Meeting on 5 June 2007, the disclosures required by section 285 (9a) Sentence 5 to 8 of the German Commercial Code have been omitted.

The fixed remuneration components for all Management Board members for 2010 remained almost unchanged compared with 2009 at €2,189.8 thousand (€2,157.3 thousand). The variable portion of the remuneration is €5,844.0 thousand (€5,715.0 thousand); in three cases this is paid in cash and in one case it is paid half in cash and half in HSBC Holdings plc shares. Moreover, the Management Board also receives a long-term incentive, which in three cases involves HSBC Holdings shares and in one case equal halves in cash and HSBC Holdings plc shares, which in the latter case are subject to a mandatory six-month holding period in accordance with a payout structure that is specified below. This remuneration element corresponds to a fair value of €6,512.0 thousand for 2010 (€4,485.0 thousand).

Other compensation amounting to €86.9 thousand (€85.6 thousand) mainly comprises remuneration paid for the use of a company car, insurance contributions and other non-monetary benefits that are taxable individually.

As in previous years, the performance-related component for 2010 was paid partially in cash and partially through an award of shares in HSBC Holdings plc. The transfer of the shares that have been allocated as variable compensation for the year 2007 will take place in three equal instalments over the next three financial years, in each case after the announcement of net income for the year of the HSBC Group, i.e. in the years 2009 to 2011, subject to the condition precedent of continued service to the Bank. This rule has been modified for 2008. The allocated shares will no longer be transferred in three instalments, but entirely in the spring of 2012. The shares allocated as variable remuneration for the year 2009 are transferred in the second and third years after the commitment, i.e. 50 % each in the years 2012 and 2013. A third of the shares of HSBC Holdings plc allocated as variable compensation for the 2010 financial year will be transferred to three Management Board members in each of the next three financial years, i.e. from 2012 to 2014. For one Management Board member a third of the long-term incentive of the variable compensation for 2010 will be paid in each of the following three years, 2012, 2013 and 2014; half of each of these three tranches will be paid in cash and the other half in shares of HSBC Holdings plc for which a further holding period of six months is stipulated.

In the year under review, payments totalling €313.9 thousand were made to two members of the Supervisory Board in consideration of advisory services provided.

Subject to acceptance of the profit appropriation proposal at the Annual General Meeting on 7 June 1011, the remuneration payable to the Supervisory Board for 2010 will amount to €1,134.3 thousand.

The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Pension benefits of €4,397.8 thousand were paid to retired general partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents. Provisions of €35,884.7 thousand have been set aside for former partners and their surviving dependents.

The members of the Board of Directors received remuneration totalling €362.0 thousand.

8.7 Corporate Governance Code

The Bank's Management Board and Supervisory Board have signed the declaration of conformance with the recommendations of the Government Commission on the German Corporate Governance Code as required by section 161 of the German Public Companies Act and made it permanently available to the public on the website of HSBC Trinkaus & Burkhardt AG (link: http://www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/governance).

8.8 Profit appropriation proposal

in €	2010	2009
The income statement closes with distributable profit of	145,169,232.50	136,150,000.00
The Management Board proposes the following appropriation:		
Payment of a dividend of €2.50 per share on the fully dividend-entitled share capital of €75,384,617.25		
That is equivalent to a total dividend of	70,269,232.50	65,250,000.00
Amount to be retained	70,000,000.00	60,000,000.00
Amount to be carried forward	4,900,000.00	10,900,000.00
	145,169,232.50	**136,150,000.00**

Dusseldorf, 4 February 2011

The Management Board

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Executive Bodies

Management Board

Andreas Schmitz (Chairmann of the Management Board), banker
Paul Hagen, banker
Dr. Olaf Huth, banker
Carola Gräfin v. Schmettow, banker

Executive Committee

Dr. Rudolf Apenbrink (from 1 January 2011)
Florian Fautz
Trevor Roland Gander (until 31 May 2010)
Manfred Krause
Dr. Christiane Lindenschmidt (from 1 January 2011)

Supervisory Board

Herbert H. Jacobi, Düsseldorf
Honorary Chairman
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Dr. Sieghardt Rometsch, Düsseldorf
Chairman
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Stuart Gulliver
Deputy Chairman
Group Chief Executive,
HSBC Holdings plc, London

Peter Boyles (from 8 June 2010)
Chief Executive Officer Continental Europe,
Deputy Chairman France,
HSBC France, Paris

Professor Dr. h. c. Ludwig Georg Braun, Melsungen
Chairman of the Management Board,
B. Braun Melsungen AG

Deniz Erkman*, Krefeld
Bank employee

Dr. Hans Michael Gaul, Düsseldorf
former Management Board member of E.ON AG

Friedrich-Karl Goßmann*, Essen
Bank employee

Timo Grütter*, Wesel (from 8 June 2010)
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

Wolfgang Haupt, Düsseldorf
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Harold Hörauf, Eggstätt
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Oliver Honée*, Essen
Bank employee

Professor Dr. Ulrich Lehner, Düsseldorf
Member of the Shareholders' Committee,
Henkel AG & Co. KGaA

Mark McCombe (until 8 June 2010)
Chief Executive Officer Hong Kong,
The Hongkong and Shanghai Banking Corporation Ltd,
Hong Kong

Friedrich Merz, Arnsberg (from 8 June 2010)
Partner,
Mayer Brown LLP

Hans-Jörg Vetter
Chairman of the Management Board,
Landesbank Baden-Württemberg, Stuttgart

Jörn Wölken*, Lohmar (until 8 June 2010)
Bank employee

* Employees' Representative

Offices Held by Members of the Management Board, Supervisory Board and Staff

Members of the Management Board

The members of the Management Board of HSBC Trinkaus & Burkhardt AG are represented on the following
a) statutory supervisory boards or
b) comparable supervisory bodies:

Andreas Schmitz		
	a)	Börse Düsseldorf AG, Düsseldorf (Chairman)
	b)	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf [1]
		L-Bank, Karlsruhe
		KfW-Bankengruppe, Frankfurt am Main
		Liquiditäts-Konsortialbank, Frankfurt am Main

Paul Hagen		
	a)	none
	b)	HSBC Trinkaus Investment Managers S.A., Luxembourg [1]
		HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg (Deputy Chairman) [1]
		HSBC Transaction Services GmbH, Düsseldorf (Deputy Chairman) [1]
		SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
		RWE Supply & Trading GmbH, Essen

Dr. Olaf Huth		
	a)	none
	b)	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Deputy Chairman) [1]
		HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg (Chairman) [1]
		HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf [1]
		HSBC Trinkaus Investment Managers S.A., Luxembourg (Deputy Chairman) [1]
		Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]

Carola Gräfin v. Schmettow		
	a)	none
	b)	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg [1]
		HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf (Chairman) [1]
		HSBC Trinkaus Investment Managers S.A., Luxembourg (Chairman) [1]
		Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chairman) [1]
		Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]

[1] HSBC Trinkaus & Burkhardt Group

Employees

The employees of HSBC Trinkaus & Burkhardt AG are represented on the following
a) statutory supervisory boards or
b) comparable supervisory bodies:

Dr. Rudolf Apenbrink		
	a)	none
	b)	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
		HSBC Jintrust Fund Management Company Limited, Shanghai [2]
		Member of the Board of the following companies:
		HSBC Global Asset Management (Taiwan) Limited, Taipei (Chairman) [2]
		HSBC Global Asset Management (Switzerland) AG, Zurich [2]
		HSBC Global Asset Management (France), Paris [2]
		BaoViet Fund Management Limited Company, Hanoi [2]

Robert Demohn		
	a)	none
	b)	HSBC Transaction Services GmbH, Düsseldorf [1]

Gerd Goetz		
	a)	sino AG, Düsseldorf
		tick-TS AG, Düsseldorf
		Kerdos Investment-AG TGV, Düsseldorf
	b)	none

Dr. Detlef Irmen		
	a)	none
	b)	HSBC Transaction Services GmbH, Düsseldorf [1]

Wolfgang Jakobs		
	a)	HSBC INKA Investment-AG TGV, Düsseldorf [1]
	b)	none

Dr. Christiane Lindenschmidt		
	a)	none
	b)	HSBC Transaction Services GmbH, Düsseldorf (Chairman) [1]
		Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
		HSBC Trinkaus Investment Managers S.A., Luxembourg [1]
		Member of the Board of the following company:
		HSBC Securities Services S.A., Luxembourg [2]

[1] HSBC Trinkaus & Burkhardt Group
[2] HSBC Holdings plc Group

Employees

Dr. Manfred von Oettingen		
	a)	none
	b)	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf [1]

Heiko Schröder		
	a)	HSBC INKA Investment-AG TGV, Düsseldorf (Chairman) [1]
	b)	none

Ulrich W. Schwittay		
	a)	none
	b)	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Deputy Chairman) [1]

Norbert Stabenow		
	a)	HSBC INKA Investment-AG TGV, Düsseldorf (Deputy Chairman) [1]
	b)	none

Supervisory Board members

The members of our Supervisory Board also sit on the statutory supervisory boards and the comparable control bodies listed below:

Dr. Sieghardt Rometsch		
	a)	none
	b)	Düsseldorfer Universitätsklinikum, Düsseldorf (Chairman)
		Management Partner GmbH, Stuttgart (Chairman)
		Member of the Board of the following company:
		HSBC Private Banking Holdings (Suisse) S.A.,Geneva [2]

Peter W. Boyles		
	a)	none
	b)	SA des Galeries Lafayette, Paris
		HSBC France, Paris [2]
		HSBC Bank A.S., Istanbul [2]
		HSBC Bank Malta plc, Valetta [2]

[1] HSBC Trinkaus & Burkhardt Group
[2] HSBC Holdings plc Group

Supervisory Board members

Dr. h. c. Ludwig Georg Braun		
	a)	Stihl AG, Waiblingen
		Stihl Holding AG & Co. KG, Waiblingen
	b)	Aesculap AG, Tuttlingen (Chairman)
		Aesculap Management AG, Tuttlingen
		B. Braun Holding AG, Lucerne[2]
		B. Braun Medical AG, Lucerne[2]
		B. Braun Medical S.A., Barcelona[2]
		B. Braun Medical International S.L., Barcelona[2]
		B. Braun Surgical S.A., Barcelona[2]
		B. Braun Milano S.p.A., Milan[2]
		Carl-Zeiss-Stiftung, Heidenheim/Jena
		IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman)
		Frankfurter Allgemeine Zeitung GmbH, Frankfurt a. M.
		Findos Investor Fund I GmbH & Co. KG, Munich
		Landesbank Hessen-Thüringen Girozentrale, Frankfurt a. M.
		REVIUM Rückversicherung AG, Melsungen (Chairman)
		Wilhelm Werhahn KG, Neuss
		WIKUS-Sägenfabrik Wilhelm H. Kullmann GmbH & Co. KG, Spangenberg
		Member of the Board of the following companies:
		B. Braun of America Inc., Bethlehem[2]
		B. Braun Medical Inc., Bethlehem[2]
		B. Braun Medical Industries Sdn. Bhd., Penang[2]

Dr. Hans Michael Gaul		
	a)	Siemens AG, Munich
		IVG Immobilien AG, Bonn
		Evonik Industries AG, Essen
		EWE Aktiengesellschaft, Oldenburg
		VNG – Verbundnetz Gas AG, Leipzig
		Volkswagen AG, Wolfsburg
	b)	none

Wolfgang Haupt		
	a)	Pfleiderer AG, Neumarkt
		Trinkaus Private Equity Pool I GmbH & Co KGaA, Düsseldorf (Chairman)[1]
		Trinkaus Private Equity M 3 GmbH & Co KGaA, Düsseldorf (Chairman)[1]
		Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman)[1]
	b)	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Chairman)[1]

[1] HSBC Trinkaus & Burkhardt Group
[2] B. Braun Group

Supervisory Board members

Harold Hörauf		
	a)	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf (Chairman)[1]
		Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf (Chairman)[1]
		BVV Pensionsfonds des Bankgewerbes AG, Berlin
	b)	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
		BVV Versicherungsverein des Bankgewerbes a.G., Berlin

Professor Dr. Ulrich Lehner		
	a)	Deutsche Telekom AG, Bonn (Chairman)
		E.ON AG, Düsseldorf
		Henkel Management AG, Düsseldorf
		Porsche Automobil Holding SE, Stuttgart
		ThyssenKrupp AG, Düsseldorf
	b)	Dr. August Oetker KG, Bielefeld
		Henkel AG & Co. KGaA, Düsseldorf
		Novartis AG, Basel

Friedrich Merz		
	a)	WEPA Industrieholding SE, Arnsberg (Chairman)
		AXA Konzern AG, Cologne
		Deutsche Börse AG, Frankfurt a. M.
		Borussia Dortmund GmbH & Co. KGaA, Dortmund
	b)	BASF Antwerpen N.V., Antwerp
		Stadler Rail AG, Bussnang

Hans-Jörg Vetter		
	a)	none
	b)	DekaBank Deutsche Girozentrale, Frankfurt a. M. (Deputy Chairman)
		Deutscher Sparkassenverlag GmbH, Stuttgart
		LBBW Immobilien GmbH, Stuttgart (Chairman)
		LBBW Equity Partners GmbH & Co. KG, Munich (Chairman)
		LBBW Equity Partners Verwaltungs GmbH, Munich (Chairman)

[1] HSBC Trinkaus & Burkhardt Group

Changes in Fixed Assets

Property, plant and equipment

in € 000	Historical cost 01.01.2010	Additions	Disposals	Reclassifica-tions	Historical cost 31.12.2010
Property-like rights	300.4	0.0	0.0	0.0	300.4
Tangible assets	50,066.8	8,569.2	4,049.3	0.0	54,586.7
Standard software	9,188.4	0.0	0.0	0.0	9,188.4
Intangible assets	12,799.2	1,096.8	0.0	0.0	13,896.0
Total	**72,354.8**	**9,666.0**	**4,049.3**	**0.0**	**77,971.5**

Financial assets

in € 000	Historical cost 01.01.2010	Additions	Disposals	Reclassifica-tions	Historical cost 31.12.2010
Interests in subsidiaries	54,391.1	554.5	1,184.8	0.0	53,760.8
Shares in affiliated companies	181,545.6	51.4	767.2	0.0	180,829.8
Total	**235,936.7**	**605.9**	**1,952.0**	**0.0**	**234,590.6**

Accumulated depreciation	Additions	Disposals	Reclassifica-tions	Accumulated depreciation	Residual book values	Residual book values
01.01.2010				31.12.2010	31.12.2010	31.12.2009
91.4	3.6	0.0	0.0	95.0	205.4	209.0
32,437.4	6,535.2	3,158.5	0.0	35,814.1	18,772.6	17,629.4
9,176.9	5.7	0.0	0.0	9,182.6	5.8	11.5
8,338.9	2,250.8	0.0	0.0	10,589.7	3,306.3	4,460.3
50,044.6	**8,795.3**	**3,158.5**	**0.0**	**55,681.4**	**22,290.1**	**22,310.2**

Accumulated depreciation	Additions	Disposals	Reclassifica-tions/write-ups	Accumulated depreciation	Residual book values	Residual book values
01.01.2010				31.12.2010	31.12.2010	31.12.2009
7,063.2	1,240.0	2.1	175.0	8,126.1	45,634.7	47,327.9
273.6	0.0	0.0	0.0	273.6	180,556.2	181,272.0
7,336.8	**1,240.0**	**2.1**	**175.0**	**8,399.7**	**226,190.9**	**228,599.9**

Auditor's Report

We audited the annual financial statements – consisting of the balance sheet, income statement and notes – including the accounting and the management report of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the fiscal year from 1 January to 31 December, 2010. The Management Board of the Bank is responsible for compiling the accounts, the financial statements and the management report pursuant to German commercial law. Our task is to provide an assessment, on the basis of the audit we have carried out, of the annual financial statements and the management report.

We conducted our audit in accordance with section 317 of the German Commercial Code, taking into account the generally accepted auditing principles prevailing in Germany, as laid down by the Institut der Wirtschaftsprüfer in Deutschland e. V. (IDW, auditors' association). Those standards require that we plan and perform the audit such that it can be recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the Group management report. Knowledge of the Group's business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. Within the context of the audit, the effectiveness of the internal control system and the evidence supporting disclosures in the books and records as well as the annual financial statements are examined primarily on a random-sample basis. The audit includes an assessment of the accounting principles applied as well as the material reports of the Management Board and the overall format of the financial statements and the management report. We believe that the audit provides a sufficiently sure basis for our opinion.

Our audit has not led to any objections.

On the basis of the knowledge gained in the course of the audit, in our assessment the annual financial statements – presented pursuant to generally accepted accounting principles – conform to statutory requirements and give a true and fair view of the asset, financial and earnings situation of HSBC Trinkaus & Burkhardt AG. Overall, the management report accurately reflects the Bank's situation as well as its future opportunities and the risks to which it will be exposed.

Düsseldorf, 18 February 2011

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner
Auditor

Signed by Bormann
Auditor

ANNEX B

Annual Report 2010 (consolidated financial statements)

The Annual Report 2010 (consolidated financial statements) are reproduced on the following pages and separately paginated (117 pages, from page B - 2 through page B - 118).

Annual Report 2010

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2010	2009	Change in %
Results in €m			
Operating revenues	667.3	619.6	7.7
Net loan impairment and other credit risk provisions	7.7	22.4	−65.6
Administrative expenses	439.3	400.8	9.6
Operating profit	220.3	196.4	12.2
Pre-tax profit	210.0	163.7	28.3
Tax expenses	70.6	54.5	29.5
Net profit for the year	139.4	109.2	27.7
Balance sheet figures in €m			
Total assets	18,584.0	18,728.6	−0.8
Shareholders' equity	1,289.7	1,062.5	21.4
Ratios			
Cost:income ratio of usual business activity in %	66.9	68.3	–
Return on equity before tax in %	19.6	17.1	–
Net fee income in % of operating revenues	60.5	55.9	–
Funds under management and administration in €bn	115.3	99.1	16.3
Employees	2,440	2,280	7.0
Share information			
Number of shares issued in million	28.1	26.1	7.7
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	5.14	4.12	24.8
Share price as at 31.12. in €	89.0	98.0	−9.2
Market capitalisation in €m	2,501.6	2,557.8	−2.2
Regulatory ratios*			
Tier 1 in €m	1,058	817	29.5
Regulatory capital in €m	1,397	1,160	20.4
Risk-weighted assets in €m	8,113	7,850	3.4
Tier 1 ratio in %	13.0	10.4	–
Regulatory capital ratio in %	17.2	14.8	–

*following confirmation of the balance sheet

Annual Report 2010

HSBC Trinkaus & Burkhardt

Date of issue: April 2011

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Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 17 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) S.A. Luxembourg	HSBC Global Asset Management (Deutschland) GmbH Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers S.A. Luxembourg	HSBC Global Asset Management (Austria) GmbH Vienna	Joachim Hecker Grundbesitz KG Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	HSBC Global Asset Management (Switzerland) AG Zurich	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Real Estate GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	
HSBC Transaction Services GmbH Düsseldorf	Trinkaus Private Equity Management GmbH Düsseldorf	

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Finally, companies acting as the managing partners of closed-end property funds and of private equity funds also form part of the Group.

The Group is managed as a single entity by the Management Board of HSBC Trinkaus & Burkhardt AG. Supervision of executives managing Group subsidiaries is carried out as a rule by the relevant Supervisory Board, Board of Directors and Advisory Board. Notwithstanding their legal independent status, all companies are managed within the framework of an overall strategy.

Constitution of the company

In accordance with the Articles of Association, the Management Board of the Bank must consist of at least two members. However, the Supervisory Board may appoint additional members of the Management Board in excess of this number. The Management Board currently consists of four persons.

The members of the Management Board are appointed and dismissed in accordance with the legal provisions of section 84 German Stock Corporation Act (AktG).

Resolutions to amend the Articles of Association are passed by the Annual General Meeting with two thirds of the share capital represented upon adoption of the resolution, provided no greater majority is required by law. The Supervisory Board is authorised to amend the Articles of Association insofar as such amendments merely relate to the wording.

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in section 119 German Stock Corporation Act (AktG). Please see Note 40 "Shareholders' Equity" in our consolidated financial statements in respect of the Management Board's current authorisation to issue shares.

In accordance with the resolution passed by the Annual General Meeting on 8 June 2010, the Management Board has the right to buy and sell its own shares for the purpose of securities trading, but only at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10 %. The number of shares bought for this purpose may not amount to more than 5 % of the company's share capital at the end of each day. This authorisation is valid until 7 June 2015.

The company has entered into no significant agreements which are subject to a change in the control of the company as a result of a takeover bid. The company has also not concluded any compensation agreements with employees or members of the Management Board in the event of a takeover bid.

Basic features of the compensation system for the Executive Bodies

The compensation of the members of the Management Board is laid down in contracts of employment which the Bank, represented by the Supervisory Board's Personnel Committee, concludes individually with the various Management Board members.

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both.

As in previous years, the performance-related components for 2010 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013. A third of the shares of HSBC Holdings plc allocated as variable compensation for the 2010 financial year will be transferred to three Management Board Members in each of the next three financial years, i.e. from 2012 to 2014. For one Management Board Member a third of the so-called Long Term Incentive of the variable compensation for 2010 will be paid in each of the following three years, 2012, 2013 and 2014; half of each of these three tranches will be paid in cash and the other half in shares of HSBC Holdings plc, for which a further holding period of six months is stipulated.

Price risks and opportunities arising from the shares allocated in the period up until transfer lie exclusively with the respective Management Board members.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2010 financial year can be found in Note 68 "Business Relationships with Companies and Persons Defined as Related Parties".

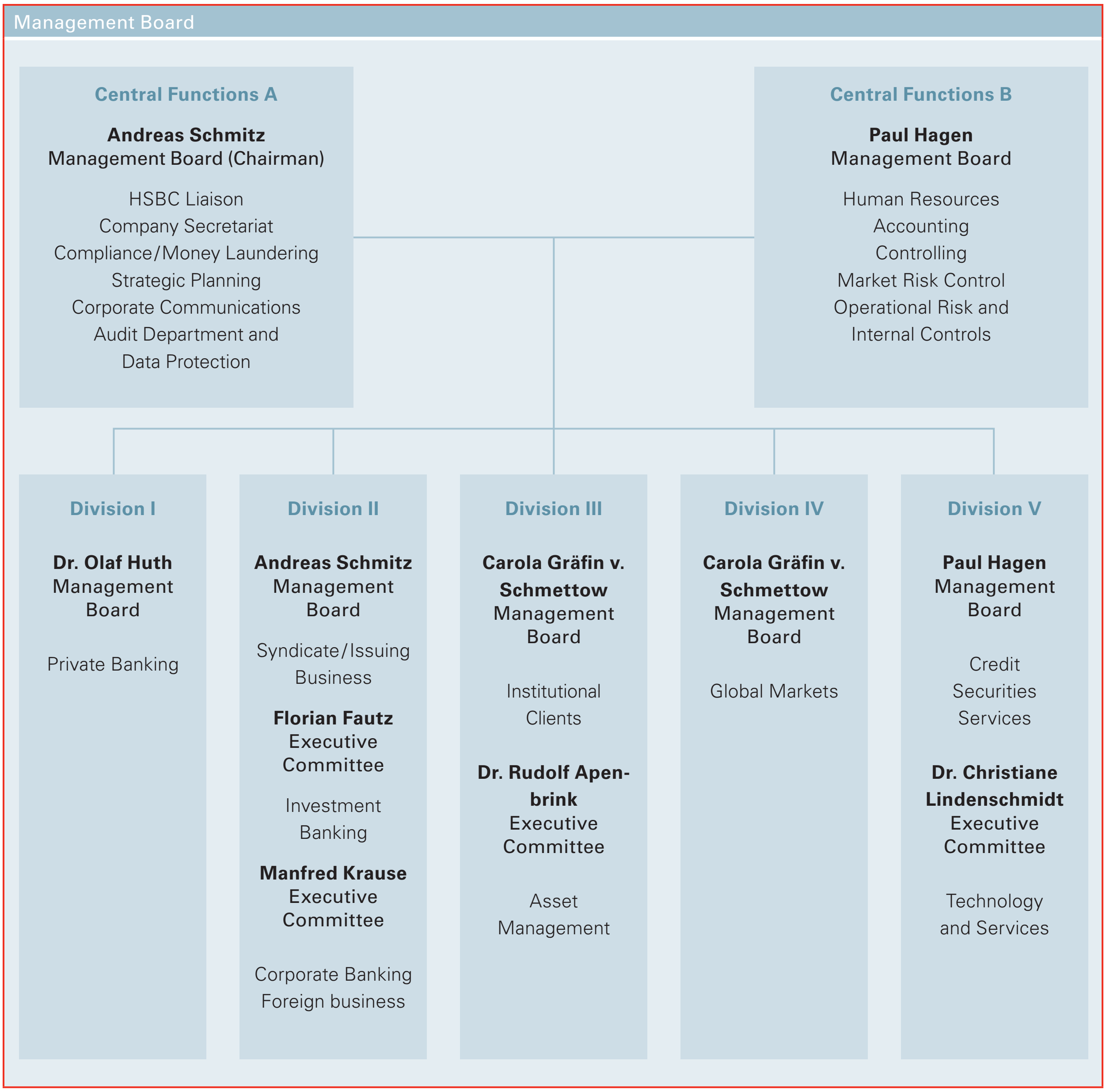
The Annual General Meeting decided with the required three-quarters majority on 5 June 2007 that the individual emoluments of the members of the Management Board are not to be published.

The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the deputy chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a Committee receive one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he / she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a Committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of members of the Supervisory Board in the 2010 financial year – including fees paid for advisory services – is reported under Note 68 of our consolidated accounts "Business Relationships with Companies and Persons Defined as Related Parties".

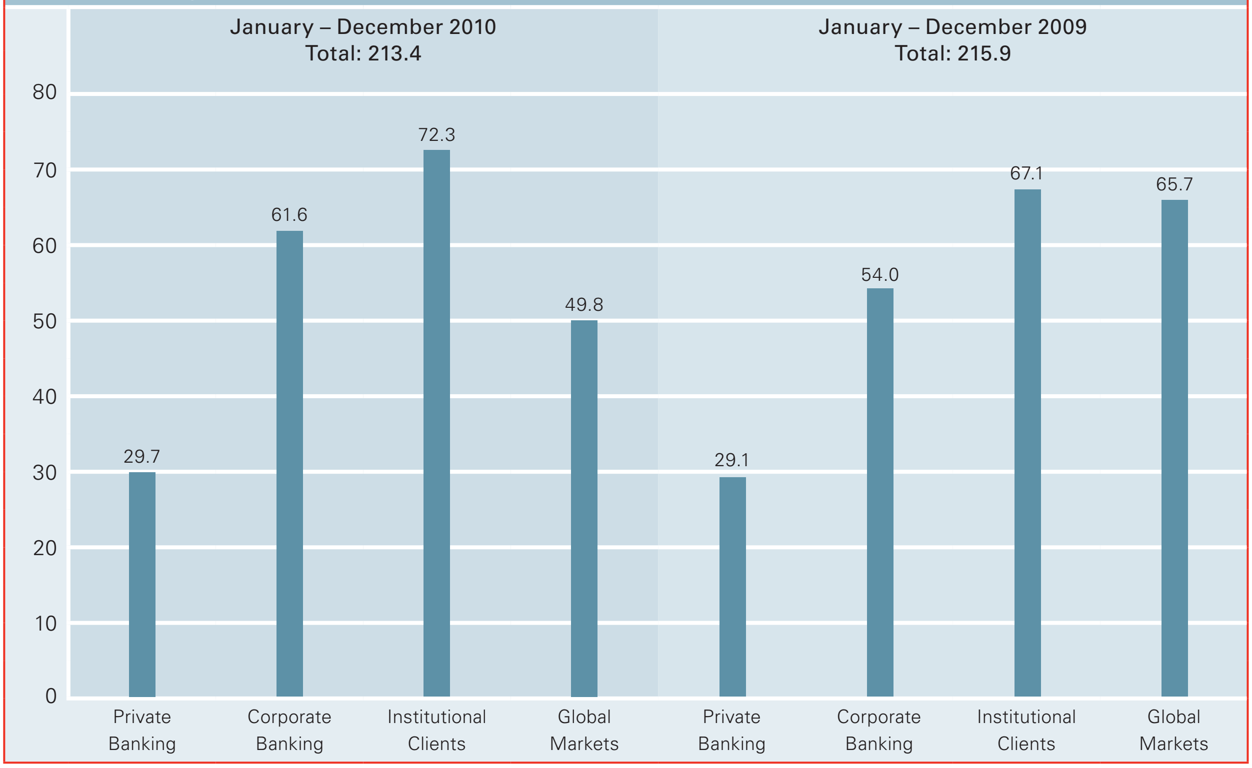
The Business Divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are assisted by Dr. Christiane Lindenschmidt (from 1 January 2011), Dr. Rudolf Apenbrink (from 1 January 2011), Mr. Florian Fautz and Mr. Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.



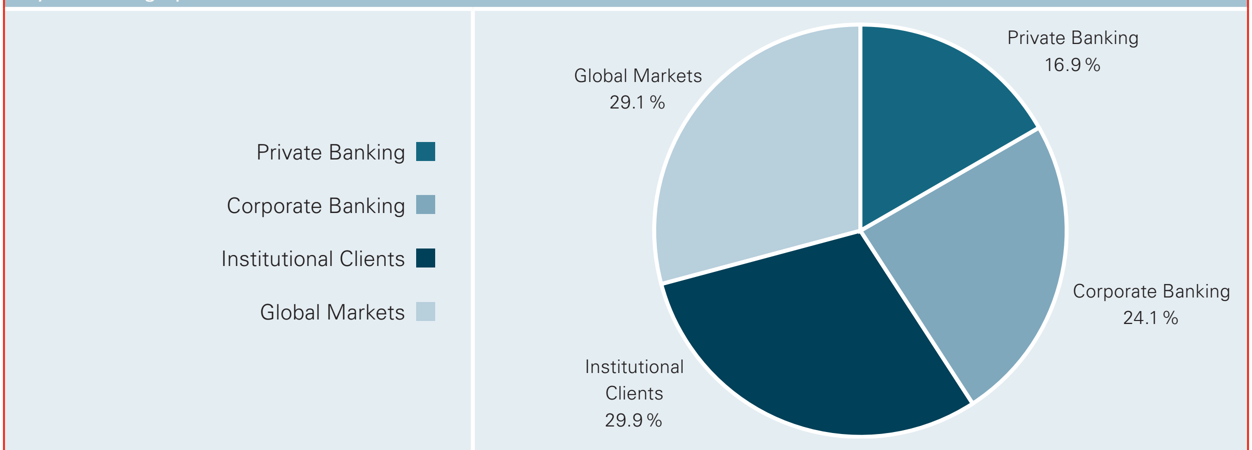
Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit in €m



After allowing for a total of € 6.9 million for head office functions during 2010, as against € – 19.5 million for 2009, the 2010 operating profit was € 220.3 million (2009: € 196.4 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions



Strategic Direction

General economic setting

The financial crisis continued to dominate financial market and economic events in the year of our 225th anniversary. Against all hopes, the crisis has not yet become part of economic history, but continues to spread unfailingly to new areas. What started as a subprime crisis went on to force several banks to file for bankruptcy and lead others to the brink of disaster, to then usher in the deepest recession since 1929. It is leading at present to a government debt crisis which has now also reached public finances, the innermost defence wall of our national economies.

In this environment, Germany's astonishing economic recovery appears to be like a "German miracle". According to the latest figures, the 3.5 % real growth in 2010 was the strongest recorded since German reunification. The number of registered unemployed fell below the 3 million mark and the number of gainfully employed persons increased to over 41 million. Thanks to the robust internal financing of German industry the credit crunch which had been feared failed to materialise. Even the banks are in a better position today than at the beginning of last year with the burdens on credit books remaining far below the expectations thanks to the rapid recovery of the real economy.

While internal affairs are comparatively favourable, Germany sees itself as being confronted abroad with a government debt crisis in Europe. As was the case with the subprime crisis, the dimensions of this crisis are by no means yet reliably measurable. This applies to Europe just as much as to the euro and to Germany. The loss of confidence in the euro and in the financial policy of the euro countries led to the eurozone crisis. As a result, the call is growing louder that the credit standing of the still financially strong countries in the eurozone be diluted via the issue of a Eurobond and brought down the level of the weak countries – with unforeseeable consequences for Germany.

Economic growth in Germany in 2010 appears to be only a temporary phenomenon. Growth will slow down not only in Germany but also worldwide as the circle of growth drivers is limited to only a few foreign markets, led by China and Brazil. The impact of the expansionary monetary policy will weaken and no end to the serious debt problem, in particular in the USA, is in sight. On the other hand, the significance of the Asia-Pacific region will grow further and global wealth will be redistributed. While attention is focused on China, the other emerging markets such as Brazil, India, Indonesia and Vietnam are also to be pointed out. Their key data – 80 % of the world's population, 50 % of global value creation, 40 % of global consumption, two-thirds of the world's growth, but only 15 % of market capitalisation – make it clear what a shift in economic output to these regions is to be expected.

While a new trouble spot has been revealed with the government debt crisis, the cleaning-up operation in the financial sector got under way last year. After the major loss of confidence accompanying the financial crisis, regaining the confidence of its customers and shareholders, but also of the political system and the regulatory authorities, is decisive for the sector. This crisis has given us the chance to learn the right lessons, develop improved standards in the banks and better rules for the financial markets. The financial market crisis revealed fundamental weaknesses in the financial system that have to be removed by introducing better regulatory standards and clearer playing rules for the financial markets. An internationally uniform approach is a precondition here if the German banking market, which is at any rate below average in terms of profitability in an international comparison, does not want to lose even further competitive strength. However necessary it is to make significant adjustments to the rules, balanced regulation with a sense of proportion is required in order that overregulation of the financial markets does not stand in the way of a sector recovery. The ability to create equity capital may not be burdened in particular. A decline in lending and therefore the restriction of the real economy in an upswing is to be avoided.

However, beyond the necessary government regulation and independent measures taken by the banks, the following still applies: the key to the success of a bank and a functioning financial market overall lies in consistent business models which focus on the customers and enable long-term economic success based on proven values. The financial crisis has revealed quite clearly here market participants without a sustainable business model who have in the end become a burden for the financial system and the taxpayer. The end to the distortion of normal trading conditions, which the European Commission is pushing for among other things, will lead to a major change in the German banking landscape.

HSBC Trinkaus' orientation in the current environment

HSBC Trinkaus proved again in the 2010 financial year that the unique combination of its business model is convincing even in times of crisis. This was underlined by the record result reported in its anniversary year. Having been founded in 1785, the Bank stands today, four revolutions, half a dozen wars, six different currencies, eleven different state systems and regimes as well as various changes of ownership later, on extremely solid foundations. And even the recent crises have not changed this. In contrast to many other banks, we have succeeded in coming out of the financial crisis in a stronger position. The fact that the rating has been unchanged since the end of 2007 is proof of this – with a long-term "AA" issuer rating, HSBC Trinkaus still has the best Fitch rating among the German private banks.

We want to remain successful in the challenging market environment through consistent orientation to clearly defined target groups and pronounced risk awareness in 2011 as well. Our success remains based on:

- our stable base of values such as trust, honesty, sense of duty and responsibility
- our strong capital base, also with respect to future regulatory requirements
- our earnings power, which has been above average for years also in relation to the competition
- our long-standing and motivated staff
- our products and services which meet with our customers' satisfaction
- our close cooperation with the HSBC Group

The secret to becoming 225 years old as a bank lies among other things in always remaining true to yourself. The fact that we can rely on a stable and reliable shareholder, HSBC, contributes to our unique position in the market. The close cooperation with the HSBC Group means that we are one of the few competent addresses for international business in the German market for more and more clients. With the "Growing on Strength" programme launched last year, we are consistently pursuing the goal of positioning ourselves as one of the three leading banks for internationally oriented corporate clients. We are using the global network of the HSBC Group even more intensively for this. HSBC Trinkaus takes a particular interest in using the connections between the individual country units of the HSBC Group to the benefit of our customers, seeing ourselves as a pioneer in global exchange in view of Germany's status as a leading export nation.

Our growth efforts are being supported by the HSBC Group's assessment that it is represented by HSBC Trinkaus in a strategically important core country, the significance of which for HSBC is expected to grow even further. In concrete terms it is expected to lead to a significant increase in the German contribution to the HSBC Group's pre-tax profit in the medium term. We want to realise this with organic growth, but as a basic principle also by acquiring assets. We regularly examine the steadily growing number of possible addresses in the market in order to make selective acquisitions. These considerations are based on our strict requirements of sustainable and profitable investments.

The international network of the HSBC Group is not only a competitive advantage which we use in the client business, but also a valuable asset in the competition for good employees. We actively promote sending our employees on work placements within the HSBC Group. Our staff members benefit here not only from the professional training, but also from the cultural diversity which the Group offers. This is a fundamental component of HSBC's corporate culture and at the same time one of the main strengths of the "world's local bank". HSBC's Diversity & Inclusion programme, which supports diversity and equal opportunities in the company and promotes the integration and appreciation of our employees, is expected to expand this advantage further. Diversity & Inclusion has been declared a management responsibility. HSBC Trinkaus is energetically supporting this programme as an expression of contemporary company management and a humane working environment.

Overview of our strategy

Our strategy is characterised by continuity and is based on the following six points:

- We concentrate on the target groups of high net worth private clients, corporate clients and institutional clients and we aim to expand our activities with existing and new clients in these segments, provided there is a balanced risk/earnings profile.

- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our existing and new clients from our target groups. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing them.

- Our trading activities serve primarily to support the client segments and provide a comprehensive product offer. When determining risk limits and trading strategies, the focus is always on the Bank's risk-bearing capacity.

- Innovative and client-related solutions are our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. The basis of every good client relationship is nonetheless the careful, flexible and service-oriented execution of standard transactions and is therefore of major importance to us.

- We are constantly expanding our service offer in the securities business for clients and for other financial institutions. With our two securities settlement and fund administration subsidiaries – HSBC Transaction Services GmbH and Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) – we offer highly-qualified services at competitive prices. Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank and global custody services as well as in asset management with the HSBC Global Asset Management units.

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the range of powerful products and the respective regional networks in 87 countries.

The success of this strategy depends on whether we manage to satisfy the following conditions in future as well:

- We must offer our clients unlimited access to the global HSBC network, without having to make compromises in terms of their requirement of individualised servicing on a private bank level.

- We must continue to focus the business relationships with our clients on trust and sustainability. Only on this basis can client and advisor work together to find optimum solutions against the backdrop of a growing variety of products.

- We must provide a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value-added chain so that we can offer our services at a competitive price and in a client-friendly manner.

- We must invest in the qualification of our employees through targeted training measures in order to do justice to the growing complexity and internationalisation of our business.

- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

The long-standing and successful business relationships with our customers as well as their positive feedback, not least in our anniversary year, have strengthened our conviction that we are on the right track. In the spirit of our long-standing tradition, we remain committed to our values; future needs tradition.

The 2010 Financial Year

General economic setting

After the hefty recession in 2009, the global economy returned to its growth path in 2010, propelled by strong growth in the emerging markets. One of the main beneficiaries of this trend was Germany, which generated GDP growth of 3.6 % in 2010. The upswing in Germany was driven not only by the export sector, but also increasingly by domestic demand. Gainful employment, which rose to a new record high over the course of the year, contributed to this among other things. Overall the German economy therefore grew at a faster pace than the entire Eurozone, but also than the USA. The upswing in the Eurozone was dampened by the crisis in the peripheral countries. Although rising commodity prices saw to a global increase in inflationary pressure over the course of the year, the impact on consumers in the developed economies was weaker. In Germany price inflation averaged 1.1 % in 2010.

In an environment of low inflationary risks and moderate growth, the ECB left the key interest rate unchanged at 1.0 %. Owing to refinancing problems at several banks in the Eurozone, the ECB also continued to provide the banking system with unlimited liquidity. In order to prevent the government debt crisis in the Eurozone from getting out of hand, the central bank also bought government bonds. The US central bank left the Fed Funds Rate unchanged at 0 % to 0.25 % and at the end of the year even set up another comprehensive programme (volume: $ 600 billion) to acquire government bonds up to June 2011.

Low central bank rates and surplus liquidity saw to a good performance on many stock markets: the DAX rose by around 16 % over the course of the year and the S&P 500 by 15 %. The broad European market was not able to match this performance. Bundesanleihen benefited from their role as a safe haven in 2010. The yield on ten-year government bonds reached a new historical low of 2.1 %, but rose notably again at the end of the year. Owing to the government debt crisis the euro fell against the US dollar to below $ 1.20 over the course of the year, although it then ended the year at around $ 1.34.

Profitability

With an operating profit of € 220.3 million HSBC Trinkaus generated the strongest result in the Bank's history in the year under report. This represents an increase of 12.2 % or € 23.9 million compared to the previous year (€ 196.4 million). We were therefore able to substantially exceed our own expectations. There was an even stronger increase in pre-tax profit of 28.3 % or € 46.3 million to € 210.0 million. Net profit for the year came in at € 139.4 million and was therefore 27.7 % or € 30.2 million higher than the prior-year figure of € 109.2 million.

We expanded our proven business model in 2010. By focusing on our clearly defined target client groups and their requirements, we were able to make further advances in all client segments. As expected, Global Markets was not able to repeat the strong prior-year result as the Treasury activities benefited strongly, especially in the first half of 2009, from the crisis-induced distortions and the impact of the ECB interest rate cuts. The continuing speculation over the credit standing of individual Eurozone member states put hardly any pressure on our income from financial assets as we are only exposed to those countries with manageable bond holdings in the bank book.

The individual items of the income statement developed as follows:

Net interest income was down significantly by € 14.6 million or 10.2 % to € 128.7 million. As a result of the expansionary monetary policy pursued by the European Central Bank money market rates in euro were at an historically low level and we were therefore able to benefit from our high level of customer deposits only to a relatively minor extent. On the lending side, although margins were better than in the previous year, there was a slight decline again here. The much-feared credit squeeze failed to materialise. On the contrary, we found that the credit lines granted by the Bank were clearly underused owing to the strong internal financing of German companies. This shows how much the upper MME segment and large German corporations, in other words our target clients in the corporate banking business, have improved their financial situation in recent years. Nevertheless, it can be observed that this does not apply equally to all companies and that some are therefore still having to battle strongly with the repercussions of the economic crisis. Overall the share of net interest income of around 20 % of total operating revenues is in line with the Bank's business model, which is traditionally based on a very high share of net fee income.

We were able to reduce net loan impairment and other credit risk provisions compared to the previous year by € 14.7 million or 65.6 % to € 7.7 million. This was due mainly to the surprisingly rapid and strong improvement in the global economic situation, from which we were able to benefit more than proportionately in Germany with an unexpectedly strong economic recovery. We were therefore able to reverse € 2.5 million in collectively assessed impairments in the year under report after having to add € 9.0 million the previous year. We also made far lower additions to individually assessed impairments than in the previous year while reversals of individually assessed impairments remained more or less on the prior-year level. Overall, the pressure on the credit books of all banks still feared at the beginning of the year failed to materialise over the course of the year under report.

There was a significant increase in net fee income of € 57.8 million or 16.7 % to € 404.0 million. The fact that we were able to improve almost all components is particularly favourable. The main developments were as follows:

- We benefited in particular from several large equity capital market transactions for listed German companies in the year under report which led to extraordinarily high net fee income in Investment Banking of € 34.2 million. On the other hand, there was a slight decline in the issuing and structuring business as the very high volume of new issues on the bond market the previous year could not be repeated. We underlined our claim of being able to offer the entire range of potential solutions in the capital market business for our institutional and corporate clients. Our fee-based business remains focused on all services in the traditional securities business. We were able to improve net income here as well by € 20.6 million or 8.7 % to € 257.3 million. The Asset Management business in particular, including depositary bank business and fund administration, clearly exceeded the already good prior-year result.

- In the fee-based business with foreign exchange and derivatives we were able to increase net fee income with respect to derivatives on both interest rates and equities. This was due not least to even stronger co-operation with various companies of the HSBC Group which mainly take the risks involved with these transactions directly onto their own books and therefore contribute to competitive pricing. There was a particularly strong increase in the foreign exchange business, although margins in traditional forex trading remain very narrow on account of the electronic trading platforms. The risks are largely entered directly in the books of other HSBC units here as well.

- Results also improved in traditional services in the foreign and lending business. Not least the first successes of our growth initiative, which is aimed above all at expanding our market share in the corporate banking business, are already visible here.

- Alternative investments have increasingly established themselves as their own asset category for our sophisticated clients. Above all institutional investors, but also to a lesser extent corporate clients and high net worth private clients appreciate the diversification effect of these products. By offering more and more optimised solutions, we provide our clients with a one-stop access to various products in this asset category.

Net trading income declined slightly by € 2.6 million or 2.1 % to € 120.4 million. Operating trading income (excluding results from derivatives held in the banking book) was up by € 6.7 million or 5.7 % to € 124.6 million, as we were able to improve our performance in all trading divisions. Our performance in trading with equity and equity/index derivatives is based primarily on the issue and market making of retail products. We continue in 2009 to attach major importance in this market to transparency and customer satisfaction as a guarantee for sustained business. While the Treasury business benefited from the crisis-related distortions on the money market in particular in the first half of the year, the Treasury result reached a high level in 2010 but as expected recorded a significant decline, despite our still very good liquidity position. On the other hand, we clearly benefited from narrowing credit spreads with respect to our bond positions in interest rate trading. The foreign exchange business also grew by more than 10 % from € 7.8 million the previous year to € 8.6 million. Valuation losses on derivatives in the bank book of € 4.2 million were reported in the year under review compared to valuation gains of € 5.1 million the previous year.

Administrative expenses were up € 38.5 million or 9.6 % to € 439.3 million. This trend is due essentially to our growth path, which requires not only an increase in the workforce and therefore also higher personnel expenses, but also considerably higher material expenses such as office costs, IT expenses, etc. Furthermore, performance-related remuneration increased parallel to the significant improvement in the overall result. In addition, the costs of a banking operation have been rising more than proportionately for years as a result of growing regulatory control as well as the constant transfer of new tasks stipulated by the government to the banks – relating in particular to tax collection.

With income from financial assets showing a loss of € 0.6 million versus a loss of € 24.0 million the previous year, we were able to significantly improve our performance in 2010. This was due firstly to the fact that the markets continued to calm down and secondly to the early adjustment of our financial assets portfolio for almost all investments with low credit ratings. Almost no impairments were therefore required in the year under report and thanks to our traditionally conservative valuation standards there were also no significant losses on disposal. Our exposure to the peripheral states under pressure in the Eurozone is narrowly limited with very short maturities in part.

While other operating income/expenses declined by € 2.0 million or 17.4 % to € 9.6 million, we were able to reduce net other expenses from € 13.8 million to € 5.5 million. This was attributable above all to lower expenses for a real estate project in Australia.

The increase in tax expenses of 29.5 % or € 16.1 million to € 70.6 million was only slightly stronger than the growth in pre-tax profit. This gives a tax rate of 33.6 % after 33.3 % the previous year. Most of the taxes are due in Germany.

The asset situation

Total assets were almost unchanged at € 18.6 million as of the balance sheet date after € 18.7 billion the previous year. There were no major changes to the structure of our balance sheet either. The consistency in total assets and balance sheet ratios shows that we did not have to change our business model, despite the financial market crisis, as it proved itself again in the balanced nature of the client segments combined with risk-aware proprietary trading. Instead, we were able to dedicate ourselves fully to implementing our growth initiative, in particular in the corporate banking business.

There was a significant decline on both the assets and liabilities side in loans and advances to banks and deposits by banks. This development is mainly reporting-date-related and largely concerns money market transactions with other HSBC units the previous year.

On the other hand, loans and advances to customers and customer accounts rose substantially. Customer deposits remain our most important source of refinancing. At € 10.1 billion they accounted for around 54.6 % of total equity and liabilities on the balance sheet date. Given our still excellent liquidity position, we can make sure that each transaction is profitable and therefore completely refrain from offers with temporarily increased deposit interest. We show a stable deposit base in all business segments.

In addition, we also refinance our business, in particular our trading assets, from the structured products issued, above all promissory note loans, warrants and certificates, which we report under trading liabilities. On the balance sheet date they amounted to just less than € 2.9 billion versus € 2.6 billion the previous year, underlining our success in the hotly contested retail market for exchange-traded warrants and certificates. Trading liabilities also include the negative market value of the derivatives and are almost unchanged versus the previous year at € 5.2 billion or 28.0 % of the balance sheet total. We refer to the section on our financial position for the increase in shareholders' equity.

The € 0.4 billion increase in loans and advances to customers to € 3.1 billion corresponds to our general guideline that we want to grow with our clients. We still see a great deal of growth potential here in particular as firstly, the credit lines granted to our clients were extremely underused despite the alleged credit crunch and secondly, we are also planning significant new lending business within the scope of our growth strategy.

Trading assets rose slightly to € 10.1 billion as of the balance sheet date after € 10.0 billion the previous year. With a share of around 54.5 % and 53.4 % the previous year they represent the largest item on the assets side of our balance sheet. Bonds, which are mostly exchange traded and also eligible, account for almost half of trading assets. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. We further increased financial assets by € 0.2 billion or 5.8 % to € 3.3 billion. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion which we have continuously expanded. We have further reduced our already limited exposure to the peripheral states in the Eurozone in both trading and in financial assets.

The financial position

We increased our capital by € 150.6 million in summer 2010 by issuing new shares at a ratio of 1 for 13 at a price of € 75.00 per share. Furthermore, HSBC Trinkaus & Burkhardt AG transferred € 60 million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 8 June 2010. Overall we have increased our shareholders' equity very considerably by € 227.2 million or 21.4 % to € 1.3 billion. At this year's Annual General Meeting on 7 June 2011 we will propose the payment of an unchanged dividend of € 2.50 per share on the increased number of shares enabling a further allocation to retained earnings of € 70.0 million from profit available for distribution.

As one of the consequences of the financial market crisis, the supervisory authorities worldwide are drastically tightening the capital requirements for banks. Firstly, more restrictive requirements for the recognition of liability equity capital are being defined. Secondly, higher minimum capital ratios in relation to the risks involved with the banking business are being introduced step by step. As our core capital already consists exclusively of subscribed capital and reserves today, we already fully meet the future requirements regarding the composition of core capital (core Tier I capital). By increasing capital and making allocations to retained earnings from profit available for distribution, we have made sure that we also already exceed by far the higher capital ratios applicable in future. This means that we are very well equipped for the coming supervisory changes with respect to the capital requirements for banks and also still have scope for business expansion or acquisitions.

Our risks-weighted assets in the lending business declined slightly by around 1.1 % to just less than € 5.9 billion despite the growth in our credit book. This expresses both the improved ratings as a result of the significant economic recovery in Germany and the relative restraint of our clients in using the credit lines granted. On the other hand, the market risk equivalent rose by over 30 % to almost € 1.1 billion. This increase is primarily the consequence of the change in the consideration of credit spread risk in our value at risk model for the trading book. The broadening of our revenue base is reflected in a 5.6 % higher obligation to provide capital backing for operational risk. Overall the regulatory risk position amounts to € 8.1 billion and is therefore around € 0.3 billion or 3.4 % higher compared to the previous year.

Following the payment of dividends this gives a Tier 1 ratio of 13.0 % and a total capital ratio of 17.2 %. This way above average capitalisation will provide our growth strategy with lasting support.

As a further lesson drawn from the financial market crisis, the regulatory authorities worldwide are drastically tightening the requirements for banks with respect to liquidity and the management of liquidity risk. We are already in a good position today in this respect as well. Firstly, with our strict liquidity risk management we already fulfil to the greatest possible extent the requirements of the Minimum Requirements for Risk Management (MaRisk) which were updated in December 2010 and extended significantly with respect to liquidity risk. Secondly, the substantial liquidity cushion we have already had for some time has been continuously expanded in recent years. We were therefore able to show growth in our liquidity cushion despite of the financial market crisis and a general shortage of liquidity. Further details of our management of risk in general and liquidity risk in particular can be found in the chapter "Risk Management".

Outlook for 2011

The economic upturn established in 2010 is expected to continue in 2011, with the emerging markets remaining the drivers of the global recovery. However, as the upswing has moved into a more mature phase, the growth momentum is likely to slow down. In the emerging markets in particular the tightening of monetary policy in reaction to the growing risk of inflation is acting as a drag. Since corresponding price risks cannot be discerned in the USA, the US central bank is leaving interest rates unchanged.

Of the countries in the Eurozone Germany remains the main beneficiary of the global economic recovery. The upswing is also being supported increasingly by internal forces. The stronger utilisation of capacities is forcing companies to make investments and the upswing on the labour market is supporting consumption. Overall we are expecting the economy to grow by 2.1 % in 2011 (2010: 3.6 %). For the entire Eurozone we are assuming GDP growth rates of just 1.7 % and 1.5 % for 2010/11. Rising commodities prices will lead to higher inflation in 2011. However, owing to the high unemployment in the Eurozone we are not anticipating lasting pressure on prices. Correspondingly there is no need for the ECB to raise interest rates in 2011. A lasting increase in yields at the long end of the yield curve need not be anticipated in this environment.

Thanks to the improved economic trend, the German banking system has been spared a tough performance test. Loan loss provisions turned out to be far lower than planned and took pressure off the banks' income statements. Nevertheless, the German banking sector is faced with major challenges with the implementation of higher capital requirements and tougher provisions with respect to maintaining liquidity.

These changes will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on the business with three clearly-defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than those banks which have strong investment banking activities, are dependent on proprietary trading and refinance themselves via the capital markets. Furthermore, the capital increase we carried out in summer 2010 has created scope for the expansion of our business also in the new regulatory environment.

We see our business strategy as confirmed by the current discussion. Since our overall client-focused orientation is not being questioned, HSBC Trinkaus' fundamental strategy will not be affected by the adjustments to the new regulations.

We therefore want to continue along the path embarked on last year and use 2011 and the years ahead to gain additional market share in all business segments. The focus is on the significant expansion of business with upper MME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

This expansion strategy is based on:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities
- the integration into the HSBC Group as one of the world's largest and most financially sound banking groups
- the Bank's strong capitalisation and good refinancing base

An expansion strategy means higher risks, but also greater opportunities. This applies in particular to the expansion of the lending portfolio with MME corporate clients. However, these risks appear to be manageable in the light of the positive trend in the German economy, even though we are expecting this growth momentum to slow down, not least due to the debt problems being experienced by several Western states as well as the inflationary tendencies in the emerging markets. The credit margins currently include more adequate risk premiums than in the past. Should other banks tend to withdraw from the credit business as a result of the higher capital requirements, we are confident that the margins will not deteriorate significantly and that we can grow in the market without lowering our credit standards.

The extremely low level of interest rates has already risen again in part and in view of higher inflation rates there is speculation over the European Central Bank tightening its monetary policy. Based on the cautious position-keeping in our financial assets, the trend towards higher interest rates which continued in January 2011 is not likely to have any major negative impact on the Bank's earnings situation, provided this trend does not accelerate unexpectedly.

There will be no significant growth in the overall volume of bank revenues in Germany in 2011 and 2012. We can therefore only increase our revenues in the years ahead by realising the targeted gain in market shares. Net interest income will play a more important role as net fee income will remain under pressure and we are planning to expand our credit volume.

Strict cost management is decisive in this situation. The increase in our administrative expenses is expected to slow down in the years ahead after rising significantly in 2010. We will make sure that the Bank's infrastructure remains strong in the long term by making sufficient investments. We are expecting our operating profit to reach the level of 2010, the best year in the Bank's 225-year history so far. This will require stronger revenues to balance out the increase in costs due among other things to the stricter regulatory requirements.

The precondition for this is that there is no major slump in share prices, perhaps as a result of distortions on account of government debt crises or a discussion over the future of the euro. Political tensions with destabilising developments could also trigger such a reaction. In addition, the pressure arising from credit risks is not likely to grow beyond the level of risk provisioning in 2010. We anticipate that the average credit rating of our portfolio will tend to improve in 2011 and see no increased credit risk at present, even in the event of the momentum of German exports slowing down. As our portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments, though. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast.

Our exposure to the euro states with particularly high debt levels is limited. We are therefore not expecting it to result in any significant burdens here, provided the stabilisation which is becoming evident as a result of the government rescue packages continues. In the event of the restructuring of government debt with bond creditors and loan creditors suffering losses, doubts over the stability of banks with a high exposure to these problem countries could develop into a systemic risk.

We still regard a target cost:income ratio ranging between 65 % and 70 % – in terms of operating profit – as adequate for our business model as a universal bank with a wide range of products. The ratio has remained stable within the target corridor in the past two years. We are again anticipating a ratio in the upper half of the corridor for the current financial year and also for 2012.

The targeted expansion of our market share is expected to be accompanied by increased revenues in all three client segments. We have already increased the number of employees in the Corporate Banking and Private Banking segments in order to realise these goals.

Through the opening of a new branch in Cologne we are expecting additional growth impetus in the business with high net worth private individuals for 2011 and the following years.

HSBC Trinkaus' collaboration with the globally-active HSBC Group gives the Bank a unique position in the Corporate Banking business. In recent years HSBC Trinkaus has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Our new expansion strategy, which also includes an extended service and product offer, such as factoring, will enable us to further increase our credibility as a reliable partner in the corporate banking business. We have already made allowance for the capital required for this in our strategy. The growth in our client base in recent years together with our expansion strategy gives us reason to believe that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The transition from the ECB's crisis-induced low interest rate policy to higher interest rates again will lead to friction. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. The expertise in product development offered by the entire HSBC Group is available to our clients. For example, we have direct access to the Group's global trading books which also enable large-volume transactions and risk assumption, thus offering added value.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. In addition, we benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is still far below the high volume seen in previous years and is limiting earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2010. The same applies to Treasury business.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration of our business processes into the HSBC Group. In order to avoid operational risk, we will further improve our internal control system, even if this is accompanied by financial burdens. However, it is obvious that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 12 % of risk-weighted assets enables the return-oriented expansion of our business. The capital increase carried out in summer 2010 has provided us with an advantageous starting base in the competition. We are carefully observing the effects of the regulatory changes already announced and still to be expected. If necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depositary bank activities. We do not rule out the acquisition of interesting client portfolios either if it serves to expand the Bank's client base.

The state intervention is not likely to lastingly distort competition in the banking market and therefore put pressure on market participants who responsibly carry out their business without government assistance. We therefore hope we will be able to pay our shareholders an appropriate dividend in the years ahead as well.

Risk Management

Definition

In accordance with German Accounting Standard No. 5 (DRS 5), we understand by the Risk Management System "a comprehensive set of control procedures covering all activities of an enterprise; these procedures are based on a defined risk strategy applying a systematic and consistent approach with the following components: identification, analysis, measurement, control, documentation and communication as well as the monitoring of these activities".

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively controlling it and systematically transforming it. We regard counterparty, market and liquidity risk, as well as operative and strategic risks as the principal risks of our banking business. Active risk control entails identifying the nature, amount and extent of any risk and structuring the risk in such a way that it not only conforms to the Group's capacity to carry risk, but also offers corresponding risk premium and return.

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. We can minimise operational risk if there is a reasonable balance between risk avoidance and the related costs. Furthermore, adequate insurance has been taken out. Avoiding risks to our reputation is one of the basic approaches with respect to our business policy. We avoid liquidity risk as far as possible and are also prepared to accept significantly lower profits as a consequence.

The extent of the Bank's overall risk is limited by the Management Board in consultation with the Supervisory Board. The appropriateness of taking on a given risk is also assessed in particular against the backdrop of the Group's capacity to assume risk on the one hand and the special risk management expertise in our core lines of business on the other. These principles continue to apply.

Since the beginning of the banking crisis and the collapse of the US investment bank Lehman Brothers, the old principle of "liquidity before profitability" has proven to be extremely valid in a market environment which has undergone drastic change. Issues relating to the Bank's liquidity position remain of the greatest priority for us. We have maintained our strong liquidity reserves and paid strict attention when investing the funds accruing in the money and capital to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds. The new banking supervisory requirements, which are currently being drawn up internationally, confirm our cautious stance.

The second central challenge facing our risk management was and is managing counterparty risk. The markets kept a very close eye on state solvency in 2010, focusing on several member states of the Eurozone. The need for the EU to set up a bailout programme for euro states prompted us to monitor and control our exposure to Eurozone states with a weaker credit standing even more intensively. We therefore significantly reduced our exposure to the so-called PIIGS states.

The impact of the economic downswing on corporate loans rapidly gained in significance in 2009. In the year under report this trend was reversed far more quickly and significantly than we had expected. We can observe easing in our credit portfolio which is also characterised very strongly by export-oriented companies. The net addition to net loan impairment and other credit risk provisions therefore turned out to be lower than we had expected.

Market risk management at HSBC Trinkaus passed its performance test in 2008 and 2009. The trend on the interest, equity and foreign exchange markets relevant for HSBC returned to relative normality in 2010, even though there are still further tensions in particular in the banking system. In trading with derivative equity products, we were able to expand our market share with almost the same volumes by quoting reliable prices for warrants and certificates at all times. The trading books for controlling throughout the Bank benefited mainly from credit spreads narrowing and low overnight money rates. The trend in 2010 has again confirmed that our value-at-risk model, into which we integrated credit spreads risks more strongly in the year under report, is calibrated conservatively.

Risk management – organisational structure

The following three committees play a central role within the Group's risk management organisation:

- the Credit Committee for counterparty risk
- the Asset and Liability Management Committee for market and liquidity risk
- the Operational Risks and Internal Controls Committee for operational risk including legal and reputational risks.

The internal audit department plays a major role in early risk detection. In its reports it highlights significant risks through the classification of its audit findings. In addition, it reports to the Management Board and the Audit Committee of the Supervisory Board based on follow-up examinations on the progress made with removing deficiencies ascertained.

This organisational structure ensures that risks are promptly identified and that suitable measures are taken in good time – also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks arise and can never be ruled out completely.

This is why short routes to the management, awareness of the risks entered into and the constant further development of risk management are decisive.

We are already preparing ourselves actively in particular for the new requirements relating to liquidity risk. With the capital increase concluded in July, we took account of the higher capital requirements in future, thus opening up additional scope for growth for our client business.

Strategic risk

By strategic risk we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. Strategic risk results primarily from the Bank's strategic orientation. HSBC Trinkaus is particularly exposed to such risks as there is strong competition for our clients in the market owing to their substantial significance.

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues is dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest-rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients in regional and product terms, can only counteract this risk to a limited extent. To a certain extent, we can also counteract this risk in a targeted way thanks to our strong integration into the HSBC Group through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

We are confident that HSBC Trinkaus' strategic position in Germany will not deteriorate, although several competitors in the German banking market have used government rescue packages to strengthen their capital base. The risk premiums for counterparty risk have increased in the market in general and are at present allowing more risk-adequate pricing of banking services than before, although this trend is already starting to wane again.

We have made no substantial progress with the further modernisation of our IT architecture since 2008 as capacities were tied up for the implementation of the flat-rate withholding tax and the requirements of additional regulatory controls. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the use of significant personnel and financial resources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further significant increase in costs for the Bank.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already repeated many times will be implemented that not more, but more effective regulation is required. The transfer of tasks stipulated by the government to the banks, such as money laundering control and tax collection, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to a substantial increase in fixed costs for the Bank irrespective of its earnings opportunities. In addition, the income statement will be burdened by the bank tax for the first time in 2011. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly. An increase in equity committed per transaction is foreseeable. In addition, the new liquidity provisions will tend to make refinancing more expensive. The structural and lasting decline in the return on equity at the same time will have a fundamental effect on all banks. HSBC Trinkaus is already actively preparing for the coming changes.

As a general principle, the continuous improvement of our efficiency is absolutely vital in order not to endanger the Bank's competitive situation.

On a positive note, the Bank's strategic orientation has proven itself in the crisis and we are confident that we will be able to gain market shares thanks to our consistent client orientation.

Counterparty risk

a) Organisation of the credit processes
Counterparty risk may be subdivided into credit and counterparty risk on the one hand and sovereign risk on the other. By counterparty risk we mean the risk of the partial or complete default by a business partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk.

The organisation of our credit department has been tailored to the size of the Bank's lending business and its target groups, thus enabling us to process and evaluate all counterparty risk in a professional and timely way.

Based on our clients' needs, before a loan is approved we examine the various options available for structuring a credit facility. These include, for example, syndications and loan securitisation using promissory note loans, or the issue of bonds.

We are guided by the principle of risk diversification: on the one hand we are careful to ensure that the borrower's risk of default is in proportion to its size and is shared with other banking institutions. On the other, we spread our credit risks widely across different industry sectors and counterparties.

We comply consistently with the minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin). In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

An authority ruling passed by the Management Board, which differentiates according to size and credit standing, regulates the authorisation process for loan commitments. The credit risk strategy coordinated with the Credit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to the current requirements on a regular basis.

The Bank uses a ten-stage rating system to classify the credit quality of its clients in the private banking business. The ten-stage internal ratings for high net worth private clients are based exclusively on a qualitative credit assessment by the analyst. However, the lending business in this client segment is of minor importance and is carried out on a collateralised basis as a rule.

A 23-stage rating system is used to classify the credit quality of our corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. These systems are constantly being improved in detail. The internal rating, the expert knowledge of the analysts and – where available – the collateral provided form the basis for the loan decision.

The rating system for the German SME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from his/her financial data. We developed this component with the help of internal client data. This is supplemented by an expert system which gives a qualitative evaluation of the customer and his/her economic environment. The rating system is completed by a set of rules for recognising liabilities within corporations. The selectivity of this statistical model has been proven on the basis of a large external database of German companies with very good results.

The rating systems for large international corporations, banks and financial service providers were adopted by the Bank from the HSBC Group after an internal inspection of their suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for the internationally oriented portfolios. All HSBC rating systems also include a qualitative evaluation of the company and its economic environment which is drawn up by the responsible customer service officer in Germany in collaboration with the local credit experts. This evaluation is supplemented by the statistical analysis of financial data and analysis of the sector and country risk.

The expected probability of default for each borrower can be derived from the rating categories. On this basis, we estimate the expected loss for the individual loan exposures taking security and other agreements into account. We set up net loan impairment and other credit risk provisions for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. Net loan impairment and other credit risk provisions fully cover the shortfall calculated in this way.

Each credit risk must be assessed and classified annually, or more frequently where the credit rating is lower and subjected to the approvals procedure. It is assessed whether the profitability of the client relationship is adequate in proportion to the risk assumed. We examine this also on a global basis for clients with relationships to other HSBC units.

Credit risk monitoring is conducted with the help of a risk limit system. It includes daily monitoring to make sure that approved lines of credit are not being exceeded.

In the case of non-performing, doubtful or problematic debts, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

Credit business is subject at regular intervals to internal auditing, both of counterparty risk and of working practices and methods.

Loans involving sovereign risk can only be granted within the framework of approved country limits. Loans to foreign borrowers always involve sovereign risk unless fully covered by domestic collateral. Loans to domestic borrowers may also involve sovereign risk if they are granted on the strength of foreign security, or if the borrower is largely dependent on a foreign shareholder.

The sovereign risks associated with counterparty risk are limited and monitored separately. Country limits are approved by the Management Board and the Credit Committee of the Supervisory Board and reviewed at least annually on the basis of political and economic analyses of the countries in question. In this context, the Bank makes use of the high-quality expertise available to it through HSBC's worldwide office network.

The adherence to country limits is monitored on a daily basis with the help of IR programmes. They also take risk transfers to or from other countries into consideration.

The Bank is deliberately reticent about direct foreign lending, except where the purpose is to assist its own local clients in their business dealings throughout the world. We are then in the position here to offer comprehensive solutions with the help of the local HSBC units.

b) Maximum default risk

Above all loans and advances, trading assets, financial assets as well as contingent liabilities and lending commitments can be affected by default risk. The risk of non-delivery can also arise in the settlement of payments transactions, foreign exchange trading as well as the securities services business. We pay greater attention to this risk despite the extremely short settlement periods.

The following table shows the Bank's theoretical maximum default risk as of the balance sheet date disregarding collateral received and other risk-reducing techniques. The maximum default risk can be quantified best by means of the gross book value of the financial assets including OTC derivatives. The netting provisions under IAS 32 as well as the impairments for financial investments under IAS 39 are taken into consideration in the gross book value. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees, the maximum default risk corresponds to the highest amount the Bank would have to pay in the event of a claim under the guarantee. The maximum default risk in respect of issued lending commitments, which cannot be revoked during their term or only in the event of a significant negative market change, is the full amount committed.

HSBC Trinkaus' maximum default risk according to this definition breaks down as follows as of the balance sheet date:

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Loans and advances	**4,492.5**	**19.9**	**5,116.9**	**22.6**
to banks	1,402.9	6.2	2,429.4	10.7
to customers	3,089.6	13.7	2,687.5	11.9
Trading assets	**9,737.9**	**43.1**	**9,551.4**	**42.2**
Bonds and other fixed-income securities	4,590.7	20.3	4,839.7	21.4
Equities and other non-fixed-income securities	1,004.4	4.4	832.4	3.7
Tradable receivables	2,334.8	10.3	1,917.2	8.5
OTC derivatives	1,439.5	6.4	1,542.9	6.8
Reverse repos/securities lending	72.3	0.3	72.6	0.3
Cash deposits	296.2	1.3	346.6	1.5
Financial assets	**3,305.9**	**14.6**	**3,126.1**	**13.8**
Bonds and other fixed-income securities	2,776.3	12.3	2,567.4	11.3
Equities	24.3	0.1	29.8	0.1
Investment certificates	100.1	0.4	145.3	0.6
Promissory note loans	293.6	1.3	277.3	1.2
Investments	111.6	0.5	106.3	0.5
Contingent liabilities	**1,305.4**	**5.8**	**1,569.2**	**6.9**
Loan commitments	**3,751.9**	**16.6**	**3,290.2**	**14.5**
Total	**22,593.6**	**100.0**	**22,653.8**	**100.0**

c) Collateral and other risk-reducing techniques

The provision of collateral is agreed in principle where necessary, for example with long-term financing or pure loans against securities. Netting agreements, where offsetting contracts with one customer can be netted against each other under certain conditions, are also concluded specifically in the derivatives business or agreements over guarantees for market values in the form of specific collateral. These agreements substantially reduce the theoretical maximum default risk represented above.

HSBC Trinkaus uses internally-developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is carried out in the line system.

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a program which links the key data of the guarantees to the account and securities account data. Standard loan-to-value ratios for various financial guarantees are predetermined for the valuation, from which the person responsible can deviate from if necessary by making decisions in individual cases (e.g. to avoid cluster risks). If no valuation is available for certain securities, then an individual decision is made with the help of a credit analyst as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are accepted only in exceptional cases. A valuation is carried out only if we receive account statements regularly and promptly from the third-party bank. Our aim is always that the financial guarantees are transferred to us.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract and the credit standing/rating of the guarantor. In contrast, physical collateral (assigned receivables and rights and transfers of title to objects as security) are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when carrying out the valuation, the legal status of the collateral agreement and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location, the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, an individual valuation mark-down is determined for each collateral provided.

Land charges should be within a loan-to-value ratio of 50 % (mainly commercial use) or 60 % (mainly residual use) of the lastingly achievable market value determined on the basis of recognised expert methods. For real estate, the market value is based on the net income value as a rule. If residential properties are used mainly privately, the real value can also be applied.

Government and private loan insurance and bank guarantees in particular are considered as collateral in the international business. They are valued at the amount guaranteed.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 5 years at the latest. If the loan secured by a charge on property exceeds the normal lending framework of 50 % or 60 % of the value of the property serving as collateral, an annual revaluation is required, though. As regards assignments and transfers of title as security, it is to be determined by the persons responsible how often and to what degree of detail corresponding proof of collateral is to be submitted by the customer.

The collateral value, if necessary allowing for upper limits (to avoid cluster risks), is automatically taken into consideration in the risk statement in respect of valued collateral. If the collateral requirement for a credit line has not been fulfilled, i.e. either no collateral has been allocated to the credit line in the system or the value of the collateral falls below the minimum value kept in the system, the line system reports that the credit line has been exceeded.

d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2010				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	1,402.9	3,001.3	1,299.0	3,741.7	9,444.9
Overdue, but not impaired	0.0	2.9	0.1	0.0	3.0
Individually impaired*	0.0	85.4	6.3	10.2	101.9
Total	1,402.9	3,089.6	1,305.4	3,751.9	9,549.8

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7
Overdue, but not impaired	0.0	0.6	0.5	0.0	1.1
Individually impaired*	0.0	80.4	6.2	7.9	94.5
Total	2,429.4	2,687.5	1,569.2	3,290.2	9,976.3

* Including the setting-up of credit risk provisions

Trading assets and financial assets (exclusively bonds)

The following overviews are based on the results of external rating agencies (as a rule Standard and Poor's). It is taken into consideration that external issue ratings are only available on a regular basis for bonds and other fixed-interest securities. Should different rating agencies arrive at differing valuations of the same financial assets, the lower value is reported.

in €m	31.12.2010			31.12.2009		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	2,136.7	1,209.0	3,345.7	1,959.7	1,064.9	3,024.6
AA+ to AA–	1,854.3	1,182.0	3,036.3	1,823.8	910.6	2,734.4
A+ to A–	403.3	193.4	596.7	734.5	320.6	1,055.1
BBB+ to BBB–	29.2	142.1	171.3	41.8	146.6	188.4
Lower than BBB–	14.8	26.0	40.8	1.8	18.4	20.2
No rating	152.4	23.8	176.2	278.1	106.3	384.4
Total	4,590.7	2,776.3	7,367.0	4,839.7	2,567.4	7,407.1

OTC derivatives

For an assessment of the credit quality of OTC derivatives, their market values are classified by counterparty below:

		31.12.2010		31.12.2009	
		in €m	in %	in €m	in %
OECD	Banks	1,077.8	74.8	1,130.0	73.5
	Financial institutions	135.1	9.4	228.4	14.8
	Other	222.5	15.5	179.1	11.6
Non-OECD	Banks	3.8	0.3	0.7	0.1
	Financial institutions	0.0	0.0	0.1	0.0
	Other	0.3	0.0	0.1	0.0
Total		1,439.5	100.0	1,538.4	100.0

e) Information on exposures which are neither overdue nor impaired

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the loan exposures can be mapped onto 7 credit categories. Credit categories 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as of the balance sheet date was as follows:

in €m	31.12.2010				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	1,327.3	971.5	608.2	1,404.5	4,311.5
Credit categories 3–4	75.6	1,946.9	683.4	2,335.8	5,041.7
Credit category 5	0.0	82.9	7.4	1.4	91.7
Total	1,402.9	3,001.3	1,299.0	3,741.7	9,444.9

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	2,134.9	932.3	715.6	1,331.1	5,113.9
Credit categories 3–4	294.5	1,432.3	839.3	1,945.6	4,511.7
Credit category 5	0.0	241.9	7.6	5.6	255.1
Total	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7

As in the previous year, no restructuring of individual loan agreements was carried out.

f) Information on loans and advances which are overdue, but not impaired

The Bank's loans and advances which have not been impaired although overdue amounted to € 2.9 million in the year under report (2009: € 0.6 million) and are exclusively to customers. € 2.4 million (2009: € 0.1 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. The fair value of the collateral stood at € 0.5 million in the year under report (2009: € 0.1 million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full.

There are also overdue, but not impaired claims resulting from excess interest of € 0.5 million (2009: € 0.5 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was € 0.5 million (2009: € 0.5 million).

g) Information on exposures for which credit risk provisions have been set up

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as the substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, then we correct the probable recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by the person responsible. Problematic exposures, for which net loan impairment and other credit risk provisions have been set up, are classified as being in default in terms of their credit rating and are therefore automatically shown in the credit ratings 6 and 7. In order to allow for country risks, net loan impairment and other credit risk provisions can also be set up for exposures with higher credit ratings. These stood at € 2.4 million in the year under report (2009: € 3.0 million).

The following table shows the individually impaired financial assets as of the balance sheet date:

in €m	31.12.2010			31.12.2009		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before individually assessed impairments*						
Credit category 6	0.0	65.9	65.9	0.0	74.4	74.4
Credit category 7	0.0	19.5	19.5	0.0	6.0	6.0
Total	**0.0**	**85.4**	**85.4**	**0.0**	**80.4**	**80.4**
Individually assessed impairments*						
Credit category 6	0.0	23.5	23.5	0.0	25.2	25.2
Credit category 7	0.0	14.7	14.7	0.0	4.3	4.3
Total	**0.0**	**38.2**	**38.2**	**0.0**	**29.5**	**29.5**
Book value after IAI*	**0.0**	**47.2**	**47.2**	**0.0**	**50.9**	**50.9**

* IAI Individually assessed impairments

Within the scope of credit risk provisions HSBC Trinkaus also makes credit provisions for individual contingent liabilities and loan commitments which amounted to € 2.1 million in the year under report (2009: € 3.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 10.9 million (2009: € 13.4 million) for loans and advances and € 3.6 million (2009: € 3.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 34.8 million (2009: € 63.3 million) as of the balance sheet date.

h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 21.4 million (2009: € 26.9 million) in the year under report.

i) Realisation of collateral received and drawing on other credit improvements

No collateral received and other credit improvements were realised and drawn on, respectively, in the 2010 financial year (2009: € 26.7 million).

(j) Information on credit risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced strongly by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region. Furthermore, there can also be a concentration of the credit risk if a disproportionately large share of the credit risk is concentrated on individual borrowers. The Bank therefore also monitors the concentration on individual addresses in order to achieve the greatest possible distribution of the risk in the lending business.

As of the balance sheet date the Bank's theoretical maximum default risk breaks down as follows:

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	9,401.4	41.6	9,439.0	41.7
Companies and self-employed professionals	8,352.7	37.0	8,068.7	35.6
Public sector	4,456.6	19.7	4,797.2	21.2
Employed private individuals	382.9	1.7	348.9	1.5
Total	22,593.6	100.0	22,653.8	100.0

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	14,806.3	65.6	15,483.2	68.3
Other EU (including Norway and Switzerland)	6,514.8	28.8	5,885.8	26.0
North America	616.1	2.7	650.2	2.9
Asia	449.0	2.0	472.4	2.1
South America	118.7	0.5	70.5	0.3
Africa	43.5	0.2	39.9	0.2
Rest of Europe	28.3	0.1	33.8	0.1
Oceania	16.9	0.1	18.0	0.1
Total	22,593.6	100.0	22,653.8	100.0

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 1,633.2 million (2009: € 2,674.0 million).

It can be seen from the breakdown by region that a substantial part of the loans and advances is concentrated in Germany as well as in EU countries including Norway and Switzerland.

(k) Counterparty risk monitoring as required by the supervisory authority

A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus from which the Credit Risk Control department has evolved. It acts as the counterparty risk monitoring unit and is responsible for the maintenance, monitoring and further development of the credit-risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

(l) Credit portfolio management

The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks at the portfolio level. For this purpose the Bank employs a simplified portfolio model which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. Parallel to this, the RiskFrontier portfolio model used at the HSBC level has been used for several months in order to monitor credit risk concentration. The results of the risk-sensitive analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

(m) Stress tests

Both the internal and the external risk-sensitive assessment of the credit portfolio are subjected to various stress test scenarios on a quarterly basis. The stress tests are conceived and the calculation and analysis of the results carried out by the Credit Risk Control department involving the credit department and the corporate banking segment. There is extremely close cooperation with respect to both methods and scenarios with the HSBC Group here as well.

Operational risk

We define operational risk as the risk of losses caused by fraud, unauthorised activities, errors, negligence, inefficiency or system faults, as well as those caused by external events. Operational risks exist in any area of an organisation and embrace a broad spectrum. Legal risks are also regarded as operational risks.

HSBC Trinkaus has always attached major importance to the reduction of operational risk to a level which is acceptable from the point of view of the costs involved. The Operational Risks and Internal Controls Committee is the central body responsible for the control of operational risks as well as reputational risks across the board within the Bank. The Committee meets every two months and is chaired by the member of the Management Board responsible for risk controlling. The Committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank and the entire HSBC Trinkaus Group.

The Committee's task is to identify operational risk across the Group, to evaluate and monitor it and to take steps for its control and future avoidance. The business procedures and processes in all of the Bank's divisions and subsidiaries are analysed in collaboration with the respective divisional heads and managing directors as well as the decentralised coordinators for operating risks in order to identify potential operational risk. The Committee monitors via these and other measures the effectiveness of the internal control environment.

Identified operational risks are evaluated with respect to their possible loss potential; the probability of these risks occurring before any risk reduction measures have been introduced is also examined. The absolute extent of the risk is determined in this way. Controls already implemented are then taken into consideration and on this basis the risks allocated to one of four risk categories. If the Committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. For example, the Committee can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

The risks, including their valuation, measures introduced as well as losses incurred, are formally documented in a system developed by the HSBC Group. The decentralised coordinators for operational risks in the individual business divisions and subsidiaries are responsible for seeing to it that the information recorded reflects the current risk profile at all times.

As the Group-wide coordinator, the secretary of the Operational Risks and Internal Controls Committee initiates and monitors the implementation of the Committee's decisions in the Bank including its subsidiaries. The methods, concepts and instruments of operational risk management are constantly refined and developed further in close collaboration with the HSBC Group.

The minutes of the Committee meetings are approved and particularly important points discussed in the Management Board meetings. This ensures that all Management Board members are constantly informed about current developments and the Bank's risk profile.

The reporting system for incidents is a further important instrument for identifying and observing operational risks. All HSBC Trinkaus subsidiaries and branches are also included in the system. All operational problems that lead to significant loss of profit, or which could have done so under unfavourable conditions, must be reported to the Committee's office. This ensures that each incident, including each potential incident, is analysed to establish whether the error was an isolated occurrence or is likely to recur. The Committee then decides how this risk can be reduced if necessary. All operational incidents above a certain preset reporting threshold are centrally recorded in an incidents database.

The Supervisory Board is informed once a year about the activities of the Operational Risks and Internal Controls Committee. This also includes a statement of overall losses including an explanation of particular occurrences.

In addition to the reporting system for incidents, staff are asked to report problems connected with operational risk to the Committee's office.

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The work carried out by the Committee in recent years has significantly increased the awareness of operational risk among all employees. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk as well as reputational risks. In the light of this, regular training is carried out in the various business areas of the Bank. In addition, every new employee has to take part in corresponding obligatory training on the topic of operational risk.

HSBC Trinkaus minimises operational risk by the constant control of working processes, security measures and not least by the employment of highly qualified staff. Operational risk is also partly covered by insurance. The processes in the Bank are regularly analysed and improved on an on-going basis. In particular, the Support Function Operational Risk and Internal Controls is also involved in the conception and approval of new products and services in order to ensure that operational risks are identified early on and minimised via suitable measures. Flat hierarchies and direct communication mean that problems can be quickly removed and risk thereby reduced.

Workflow descriptions of the individual business processes stipulate in detail which controls are built into the processes in question. We attach particular importance to the principle of dual control. Workflow descriptions are revised on a regular basis and managed centrally.

The efficiency of the control processes implemented and documented is examined and certified on a regular basis for all important controls based on a representative random sample in a multi-stage procedure independently of the specialist areas carrying out the controls.

Information risks are managed within the scope of the Business Information Risk Officer (BIRO) programme which is controlled by a central committee, the Group's Information Security Risk Committee. The Committee meets on a quarterly basis to discuss relevant issues, stipulate key points of emphasis and decide upon corresponding measures. The role of Chief Information Security Officer in the HSBC Trinkaus Group is taken on by the head of IT Security.

The specialist management of the BIRO programme is carried out by the Support Function Operational Risk and Internal Controls. So-called Business Information Risk Officers have been appointed in all business segments and at all subsidiaries. This guarantees that information risks are observed from an integral perspective and that alongside technological issues, comprehensive specialist, legal and conceptional issues are also taken into consideration.

One key issue in 2010 was the introduction of group-wide methodology for the risk-based classification of information. In addition, IT applications which are developed and operated outside the central Information Technology team were again inventoried and classified with respect to their risk profile. If necessary, corresponding further measures were implemented to limit the risks identified. Numerous staff training sessions and workshops were carried out as well as in-house publications released during the year under report in order to sensitise our employees even more to the adequate handling of confidential information. Significant progress was also made with regard to the use of modern encryption technologies in email communication with external third parties.

The observance of the HSBC Group's guidelines is guaranteed by the integration of the head of the BIRO programme into the corresponding activities of the HSBC Group.

Market risk

Market risk is understood as the extent to which the market value of a financial instrument can rise or fall to the Bank's disadvantage based on changes to market price parameters. Market risk includes the following three types of risk: exchange rate risk, interest rate risk as well as equity and other price risks. Market risks arise at HSBC Trinkaus primarily from interest rate, equity and foreign exchange trading activities as well as to a lesser extent from commodities where there is no physical delivery.

To measure market risks in our trading book under normal market conditions for many years we have been using a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model was expanded significantly in 2010 in terms of commodity and (credit) spread risks, the use of which for regulatory purposes was authorised by BaFin in August. It is still based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 5 of the consolidated financial statements "Financial Instruments" for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in the market parameters. With respect to interest rate risk we consider both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from corporate bonds in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates including gold prices
- Commodity prices (various types of oil, silver)
- Zero interest rates for typical maturities from swap curves
- Credit spreads for various categories such as Pfandbriefe, bonds issued by German federal states and bank bonds with further differentiations by credit standing and/or maturity.
- Equity and equity index option volatilities for typical maturities
- Foreign exchange option volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

Issuer-specific interest rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. They are also covered via the regulatory standard approach.

The total market risk of HSBC Trinkaus & Burkhardt AG according to our internal risk model and comparable figures for our Luxembourg subsidiary are as follows:

in €m	2010			
	31.12.	Average	Minimum	Maximum
Interest rate risk	2.6	2.4	1.6	3.2
Currency risk	0.3	0.4	0.1	1.2
Equity/index risk	1.8	3.8	1.2	7.9
Credit spread risk*	3.7	3.8	3.1	4.3
Commodities risk*	0.2	0.0	0.0	0.2
Total potential market risk in the trading book**	**4.9**	**8.1**	**4.9**	**10.9**

in €m	2009			
	31.12.	Average	Minimum	Maximum
Interest rate risk	2.9	2.8	2.1	3.6
Currency risk	0.2	0.3	0.1	1.0
Equity/index risk	4.6	3.3	0.8	6.2
Total potential market risk in the trading book	**4.7**	**4.9**	**2.7**	**8.4**

* have only been calculated since 17 September 2010; figures for the comparable period are therefore not available.
** includes credit spread and commodity risks.

Risks relating to interest rates (including general credit spread risks) and equities still represent the Bank's greatest market risks. The extreme market movements on individual days on account of the financial market crisis also dominated the values at risk in 2010 as a 500-day history is used to simulate the risks.

The more detailed diversification of the credit spread risks led to slightly higher values at risk.

We also use our internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries.

For the purpose of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. As was already the case in 2009, no back-testing anomalies were found throughout the Bank in 2010. Given the major distortions on the financial markets in the meantime, this continues to suggest that the modelling employed is probably on the conservative side.

Outside the model we continue to employ a number of additional sensitivity, volume and maturity limits in order to avoid concentration risks and also account for those risks which cannot be entirely incorporated into the model. We counteract high levels of uncertainty in the valuation of positions in illiquid markets not only by using limits, but also by making adequate valuation adjustments.

Value-at-risk approaches are unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences. To cater for this, we supplement our full risk identification system with daily stress testing of all trading departments in order to assess the impact of extreme market movements on the value of positions. The stress testing results form part of the daily risk reporting process and provide us with valuable additional information. Separate limits are defined for the losses arising from the stress tests and the scenarios we use are regularly checked and adjusted.

Compliance with all risk limits is monitored every day by the Market Risk Control on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the Asset and Liability Management Committee on the basis of their capacity to assume risk and are adjusted, if necessary, during the course of the year. Market Risk Control also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to HSBC.

The average market risk potential in the regulatory investment book (99 % confidence interval / 1-day holding period) came to € 7.2 million (2009: € 3.5 million). This figure includes the credit spread risks for the first time in the year under report. Without taking these risks into consideration the figure would come to € 3.4 million. Market risks in the Bank's investment book are limited to interest rate as well as equity and other price risks. They are determined outside the risk models and are controlled at executive management level.

Liquidity risk

We understand liquidity risk as the danger of insolvency which arises if long-term assets are financed on a short-term basis and unexpected outflows of funds cannot be compensated.

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in order to remain solvent at all times, even in the event of extreme events. In order to detect liquidity risk early on, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. These are specifically defined in our three-stage emergency liquidity plan which can be activated at short notice.

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk. ALCO's duties include monitoring liquidity and funding ratios as well as the regular adjustment of the liquidity risk strategy including the emergency liquidity plan and transfer pricing for liquidity within the Bank.

Our liquidity risk strategy envisages that the Bank can fulfil its payment obligations at any time without HSBC's support and that central bank liquidity is not to be used as a lasting source of financing. The constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit.

Our subsidiary in Luxembourg is included in liquidity risk management at the Group level according to the procedures and parameters used throughout the Group. In addition, as an individual institution it controls its liquidity independently, thereby fulfilling all the regulatory requirements in Luxembourg.

The following overview shows the Bank's key liquidity ratio in accordance with the German Liquidity Ordinance (LiqV), which by far exceeds the statutory requirements:

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2010	2009
31.12.	2.13	1.79
Minimum	1.75	1.63
Maximum	2.63	2.08
Average	2.13	1.84
Reference value in accordance with section 2 LiqV	**1.00**	**1.00**

We brought the internal liquidity management procedures in line with the methods applicable for the HSBC Group worldwide to the greatest possible extent in 2010. Liquidity forecasts derived from six different stress scenarios are the central control instrument. The scenarios differ in terms of the various assumptions with respect to outflows of liquidity and changes in the value of securities which can be combined with institute-specific or market-wide results. In each scenario we forecast the cumulative change in the cumulative inflows and outflows from the commercial business across several maturity bands. In the institution-specific scenarios, the full deduction of the customer deposits not qualified as core deposits within three months and the drawing on uncalled loan commitments of up to 35 % in the same period is assumed. Resulting cash deficits have to be balanced out by the liquidation of the liquidity cushion of marketable assets.

The minimum amount of the cushion required for this in an institution-critical scenario therefore also secures the Bank's ability to pay at all times even given unexpected outflows of funds. The institution-critical scenario is based on an annual risk valuation by HSBC on the basis of internal and external factors and is supplemented by an in-house scenario which is meant to show the effect of a rating downgrade of up to three rating notches.

The cumulative net balance of the liquid funds after six months and after liquidation of the liquidity cushion in the institution-critical scenario is the most important internal liquidity ratio. It must be clearly positive.

Large parts of the liquidity cushion consist of public sector bonds, Pfandbriefe and other eligible assets which are not used otherwise as collateral and for which we carry out different valuation mark-downs depending on the scenario. Securities or cash collateral transferred to third parties for security or margin obligations is not included in the liquidity cushion. At of 31 December 2010 we had deposited most of these assets with a collateral value of € 4.34 billion at the Bundesbank (2009: € 4.85 billion) giving us potential access to central bank loans to this extent. We did not participate in any new ECB main refinancing transactions in 2010.

The advances/core funding ratio represents the most important funding ratio. Owing to a different method of calculation, this ratio is higher than the ratio of loans and advances to customers to customer deposits, which can be derived from the balance sheet. This ratio stood at 30.4 % (2009: 29.7 %) at the end of the year versus an advances/core funding ratio of 52.1 % (2009: 61.7 %).

We monitor the maturity matching of the financing structure based on regular liquidity outflow analysis in which the liquidity commitment is broken down into contractual and effective terms. The dependence on individual creditors is also measured based on concentration ratios for the 20 largest creditors. There was no material concentration with respect to assets and financing sources or in respect of foreign currencies.

We issue no funding tools which provide for accelerated repayment depending on the deterioration of credit quality or which can be settled by the delivery of treasury shares instead of in cash. Obligations to provide collateral in cash or in securities can arise unilaterally in connection with stock exchange transactions settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders. The individual transactions are usually subject to netting agreements. As of 31 December 2010 the Bank had received € 57.0 million (2009: € 74.4 million) and provided € 296.2 million (2009: € 346.6 million) in cash collateral under such collateral riders.

In order to show the Bank's liquidity risk, an overview of the residual terms of the financial liabilities is given in the table below. The cash flows agreed by contract are reported on an undiscounted basis. Such undiscounted cash flows can deviate from the book value shown in the balance sheet insofar as discounted values are taken into consideration in the balance sheet.

in €m	31.12.2010						
		Gross outflow (not discounted)					
	Book value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	1,180.4	1,181.4	1,084.4	3.1	75.4	18.5	0.0
Customer accounts	10,148.0	10,158.6	8,782.4	779.2	345.5	96.6	154.9
Certificated liabilities	10.0	12.8	0.4	0.0	0.0	1.2	11.2
Trading liabilities (excluding derivatives*)	2,997.9	3,289.8	586.4	170.2	888.2	879.5	765.5
Derivatives in hedging relationships	5.7	5.6	0.3	–0.2	2.1	4.2	–0.8
Provisions	96.5	106.4	84.0	0.0	0.0	0.0	22.4
Other liabilities	214.1	215.3	57.5	29.2	99.0	22.3	7.3
Subordinated capital	378.4	616.4	16.5	0.1	0.0	72.7	527.1
Sub-total	15,031.0	15,586.3	10,611.9	981.6	1,410.2	1,095.0	1,487.6
Financial liabilities outside the balance sheet:							
Financial guarantees	842.3	842.3	842.3	0.0	0.0	0.0	0.0
Loan commitments	3,751.9	3,751.9	3,751.9	0.0	0.0	0.0	0.0
Total	**19,625.2**	**20,180.5**	**15,206.0**	**981.6**	**1,410.2**	**1,095.0**	**1,487.6**

in €m	31.12.2009						
		Gross outflow (not discounted)					
	Book value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	2,697.6	2,699.7	2,641.0	9.7	30.9	13.7	4.4
Customer accounts	9,062.1	9,093.8	7,900.3	597.7	315.6	99.9	180.3
Certificated liabilities	10.0	13.1	0.4	0.0	0.0	1.2	11.5
Trading liabilities (excluding derivatives*)	2,740.6	3,111.2	183.4	183.5	498.0	1,297.1	949.2
Derivatives in hedging relationships	3.2	3.7	–0.3	–0.1	1.9	1.3	0.9
Provisions	152.2	162.6	140.4	0.0	0.0	0.0	22.2
Other liabilities	95.3	97.3	23.1	34.2	21.0	10.9	8.1
Subordinated capital	384.4	650.4	0.0	0.0	6.2	39.2	605.0
Sub-total	15,145.4	15,831.8	10,888.3	825.0	873.6	1,463.3	1,781.6
Financial liabilities outside the balance sheet:							
Financial guarantees	351.6	351.6	351.6	0.0	0.0	0.0	0.0
Loan commitments	3,290.2	3,290.2	3,290.2	0.0	0.0	0.0	0.0
Total	**18,787.2**	**19,473.6**	**14,530.1**	**825.0**	**873.6**	**1,463.3**	**1,781.6**

* In accordance with the changes to IFRS 7 in March 2009, there are no derivatives in trading liabilities included in the liquidity analysis by contractual residual term which do not serve to hedge the Bank's long-term positions.

** Net obligations pursuant to IAS 19 are recognised with their average term

Analysis of the residual terms shows that most of the financial instruments are due by contract within the first three months of the balance sheet date. It is to be taken into consideration, though, that liabilities do not necessarily have to be repaid at the earliest possible point in time and that uncalled loan commitments are not drawn on in full.

IFRS 7 requires that gross outflows are shown by contractual residual term. The informative value of such a table showing the Bank's liquidity is only limited as the expected cash flows are used above all for effective management. Internal liquidity management as well as the supervisory ratios give a far better insight into the liquidity position here.

Since the Bank's liquidity situation cannot be adequately reproduced by looking at liabilities alone, the book values of the main assets and liabilities by residual term which will lead to future cash outflows or inflows are set against each other in the table below:

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Loans and advances to banks	31.12.2010	1,199.2	191.2	12,5	0,0	0,0	0,0	1.402,9
	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
Loans and advances to customers	31.12.2010	1,642.2	863.5	400.6	165.1	18.2	0.0	3,089.6
	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
Trading assets*/**	31.12.2010	10,129.7	0.0	0.0	0.0	0.0	0.0	10,129.7
	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
Financial assets	31.12.2010	291.3	32.7	609.5	1,267.7	868.6	236.1	3,305.9
	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
Other assets	31.12.2010	0.4	0.0	9.7	0.0	0.0	193.6	203.7
	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
Total	**31.12.2010**	**13,262.8**	**1,087.4**	**1,032.4**	**1,432.8**	**886.8**	**429.7**	**18,131.8**
	31.12.2009	**13,763.9**	**786.1**	**634.6**	**1,948.6**	**834.0**	**471.7**	**18,438.9**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Deposits by banks	31.12.2010	1,084.1	3.1	75.1	18.1	0.0	0.0	1,180.4
	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
Customer accounts	31.12.2010	8,781.8	778.3	344.4	95.0	148.5	0.0	10,148.0
	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
Certificated liabilities	31.12.2010	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*/**	31.12.2010	5,194.3	0.0	0.0	0.0	0.0	0.0	5,194.3
	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
Provisions***	31.12.2010	83.7	0.0	0.0	0.0	12.8	0.0	96.5
	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
Other liabilities	31.12.2010	214.1	0.0	0.0	0.0	0.0	0.0	214.1
	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
Subordinated capital	31.12.2010	16.5	0.1	0.0	60.6	301.2	0.0	378.4
	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
Total	**31.12.2010**	**15,374.5**	**781.5**	**419.5**	**173.7**	**472.5**	**0.0**	**17,221.7**
	31.12.2009	**15,895.0**	**639.6**	**370.2**	**151.4**	**538.9**	**0.0**	**17,595.1**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 59.

** excluding derivatives which are part of a hedging relationship

*** Net obligations pursuant to IAS 19 are recognised with their average term

The ICS in the Accounting Process

General

The Internal Control System (ICS) is an integral part of our risk management system. The requirements pursuant to section 289 section para. 5 and section 315 para. 2 German Commercial Code (HGB) relating to the explanation of the main features of the internal control and risk management system with regard to the accounting process are to be fulfilled here.

The ICS with regard to the accounting process takes into account the principles, procedures and measures to guarantee the observance of all the statutory requirements and the provisions of the articles of association to this effect. It ensures that a true and fair view of the company's assets and liabilities, along with its financial position and earnings situation, determined in accordance with generally accepted accounting principles is presented. The controls implemented shall guarantee with reasonable assurance that the individual and consolidated financial statements are drawn up in compliance with the provisions.

Through the establishment and further development of our internal control system, adequate, but not absolute certainty with respect to the fulfilment of the control targets can be achieved. This means on the one hand that the establishment of internal controls is determined by their cost:benefit ratio. On the other, the implementation of the ICS by our employees entails the risk of human error when executing activities. Furthermore, errors can arise with respect to estimates or the exercise of discretionary powers. Misstatements in the annual financial statements cannot therefore be uncovered or prevented with absolute certainty.

We define an issue as material if the assessment of the annual financial statements by the reader of the financial report and the quality of the accounting information were to be impaired by the absence of this information and if the picture given of the company's assets and liabilities, along with its financial position and earnings situation, were incorrect.

The Internal Control System at the company level is documented comprehensively and examined and updated annually within the scope of the requirements under the US Sarbanes Oxley Act (SOX), which is indirectly applicable to us as well through the listing of the HSBC shares in New York. HSBC Trinkaus follows the principles of responsible company management and company monitoring as laid down in the German Corporate Governance Code. Pursuant to section 161 German Stock Corporation Act (AktG) the Management Board and Supervisory Board declare on an annual basis that the recommendations of the "Government Commission on the German Corporate Governance Code" were and are complied with and which recommendations were or were not applied and for what reason. This declaration is part of the corporate government statement pursuant to section 289 a German Commercial Code (HGB) which is published on our homepage (www.hsbctrinkaus.de).

In addition, we have formulated a code of conduct in writing which expresses our understanding of values and our behavioural standards to which the Management Board and all employees have committed themselves in writing. We have also laid down a detailed compliance concept in writing.

Organisational structure

The organisational structure of the Bank including the Support Functions and the responsibilities within the Management Board are presented in the chapter entitled "The Business Divisions". Accounting at the Bank is primarily the responsibility of the Support Functions Accounting and Controlling.

The Support Function Accounting is responsible for accounting according to HGB (individual financial statements of the parent company) and according to IFRS (consolidated financial statements of the HSBC Trinkaus Group and subgroup financial statements for HSBC Bank plc, London). The tax department, the accounting of the main German subsidiaries as well as regulatory reporting are also assigned to the Support Function Accounting.

The Support Function Controlling is responsible for the internal Management Information System (MIS) which consists essentially of profit contribution accounting, cost centre accounting, customer costing as well as planning and budgeting.

The Support Function Market Risk Control (MRC) is responsible for determining the market and fair values of financial instruments. Where available, market prices publicly quoted on an active market are taken as a base, otherwise the values are determined on the basis of recognised valuation methods. The prices determined in this way are included in the back office and accounting systems via automated interfaces on a same-day basis. The selection of the data sources used as well as the assignment of the valuation parameters used and the valuation methods to be applied are carried out by Market Risk Control independently of trading. Essential matters relating to the valuation are discussed in the monthly Valuation Committee meetings. The Chairman of the Committee is the Management Board member responsible for Accounting. Further members include the heads of MRC and Accounting as well as the Chief Operating Officer Markets as the representative of the trading departments.

The company's annual financial statements and management report as well as the consolidated financial statements and group management report are drawn up by Accounting and the Management Board. The key figures of the annual financial statements and the consolidated financial statements are discussed in the February meeting of the Supervisory Board. In a second meeting the annual financial statements and the management report as well as the consolidated financial statements and the group management report are approved by the Supervisory Board and hence adopted. On the basis of the adopted annual financial statements the Annual General Meeting makes the resolution over the appropriation of profit available for distribution.

The annual financial statements including the management report as well as the consolidated financial statements including the group management report and the interim reports are published electronically in the Federal Gazette (Bundesanzeiger).

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt, Düsseldorf, was Chairman of the Audit Committee until 31 December 2010. Further members at this point in time were Harald Hörauf, Eggstätt and Peter Boyles, Paris.

The external auditors are elected at the Annual General Meeting for the current financial year. The external auditors are appointed by the Audit Committee of the Supervisory Board observing the provisions of section 318 ff. German Commercial Code (HGB). In addition, the external auditors explain their audit programme together with the main points of the audit and prove their independence in an Audit Committee meeting. In a further Audit Committee meeting the external auditors explain their main audit procedures and findings. At the meeting of the Supervisory Board at which the annual financial statements are adopted, the external auditors explain their main audit procedures and findings to the entire Supervisory Board.

In accordance with the provisions of the Minimum Requirements for Risk Management (MaRisk) published by the Federal Financial Supervisory Authority (BaFin), the internal audit department examines the effectiveness and appropriateness of the Risk Management and Internal Control System on a risk-oriented and process-independent basis. In order to carry out its duties, the internal audit department has the right to full and unlimited information regarding all processes and IT systems used.

IT systems

The financial statements of HSBC Trinkaus & Burkhardt AG according to HGB well as the MIS are based substantially on integrated accounting. This involves a self-developed mainframe program package which essentially provides data and interim results for the daily, monthly and annual financial statements including the income statement as well as for cost centre accounting and customer costing. Integrated accounting guarantees that there is a close connection between accounting and

MIS. Accounting according to IFRS for HSBC Trinkaus & Burkhardt AG is also featured in integrated accounting via separate company codes.

Various input systems for settling the different business transactions automatically transfer the accounting records for these business transactions (machine registers) to integrated accounting. The settlement of the business transactions and therefore the utilisation of the input systems is carried out in the various specialised back office areas on a decentralised basis (e.g. securities transactions in GEOS by HSBC Transaction Services, exchange-traded derivatives in Rolfe & Nolan by Treasury and Derivatives Operations, etc.). Manual registers are required only in exceptional cases.

Accounting entry programs developed by the Bank itself as well as individual data processing programs (Microsoft Excel and Access) are also used to complement integrated accounting. The programs are used to determine accounting data which are then transferred to integrated accounting. They consist essentially of systems for entering and paying incoming invoices, for drawing up outgoing invoices and entering simple booking records as well as applications for account reconciliation, investment accounting and the presentation of the development of fixed assets and summary of movements in provisions.

Accounting for the subsidiaries is carried out in each case in a standard software solution provided by an external software supplier and serves primarily the preparation of the individual financial statements of the respective subsidiary according to commercial law.

Consolidation is based substantially on TuBKons, an access programme package developed by the Bank itself and the data stored in a DB2 system. Debt, expense and income as well as capital consolidation and the elimination of intercompany gains is carried out in TubKons based on the import from integrated accounting, the various import systems with the required transaction details as well as the accounting carried out for all main subsidiaries (including the special funds liable to consolidation). Reconciliation from HGB to IFRS figures is also carried out for the subsidiaries and all group valuation measures presented.

General structure of the ICS

The main principles for the structure of the ICS with regard to the accounting process are:

(a) Functional separation
Customer contact and business transactions are clearly separated from all downstream processes in operational terms up to Management Board level. In addition to the internal audit department, the Support Function Operational Risk and Internal Controls is of particular importance with regard to the accounting process. It is responsible among other things for the reconciliation of all loro and nostro accounts as well as reconciling all trade confirmations received with the trade confirmations of the various back office areas. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(b) Principal of dual control and authority rules
Each entry must be verified by a second person. The permissions for this are geared towards the experience and specialist knowledge of the individual employees and regularly updated in the IT systems. They are examined by the respective divisional heads on a regular basis.

(c) Professional skills of the employees
The quantitative and qualitative staffing in Accounting and Controlling is appropriate. The employees have the required knowledge and experience depending on their area of responsibility. This is examined within the scope of the annual planning process and considered accordingly in both the staff appointment scheme and the training budget.

(d) Access authorisations
Differentiated access authorisations have been established for integrated accounting as well as all other main systems in accounting to protect against unauthorised access.

Specific components of the ICS

In addition to the general principles, specific measures and controls have also been established with respect to the requirements of the accounting process.

(a) Accounting guidelines
The statutory requirements and relevant accounting standards are specifically defined in accounting guidelines and workflow descriptions which are examined regularly and updated if required. These also include detailed guidelines of the HSBC Group which are laid down in writing in several manuals and updated regularly. The observance of the workflow descriptions is part of the examination of the specialist division responsible in each case by the internal audit department by way of standard.

(b) Plausibility checks for all registers
During the processing of a register, various plausibility checks are carried out by the system. The plausibility checks lead either to the entry being rejected or to entries with default settings or to an error log which is processed the next day.

(c) Reconciliation of the back office systems
All derivatives and money market transactions are reconciled between the front and back office systems by a separate coordination group on a daily basis. Any differences are clarified the next day.

(d) Depositary reconciliation
Reconciliation with all depositaries is carried out on a monthly basis for all securities portfolios. In addition, daily reconciliation is carried out between the securities nostro system and the corresponding general ledgers for proprietary holdings. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(e) Internal accounts and securities accounts
All balances and holdings on internal accounts and securities accounts are broken down in detail and confirmed by the responsible divisions on a monthly basis. Particular attention is paid to the settlement and clearing accounts which are also subject to unannounced examinations. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(f) Reconciliation with affiliated companies
All transactions within the HSBC Trinkaus Group are consolidated on a monthly basis. Any differences arising are recorded and clarified. Transactions with other companies from the HSBC group are presented separately in the monthly report to HSBC and automatically consolidated by HSBC. Any substantial differences arising are reported to both companies concerned on a quarterly basis and are to be promptly clarified.

(g) Account statements and confirmations of open transactions
The Support Function Operational Risk and Internal Controls sends out annual account statements for all customer accounts. For open transactions, in particular OTC derivatives (including foreign exchange transactions), the internal audit department separately reconciles all outstanding transactions with a random sample of counterparties on an annual basis.

(h) Reconciliation between Accounting and Controlling
As the preparation of the financial statements and the MIS are collectively based on integrated accounting, the monthly reconciliation between Controlling and Accounting is a central component of the ICS with regard to the accounting process. This ensures that all substantial errors are quickly recognised and corrected.

The administrative expenses according to the income statement are allocated in MIS within the scope of cost centre accounting to the divisions incurring the costs and compared with the budgeted figures. Larger deviations are to be explained by the responsible divisional heads at least on a quarterly basis.

Net interest and net fee income according to the income statement are also reconciled with customer costing. Customer costing is made available to the customer service officers and the divisional heads of the divisions servicing customers on a monthly basis. It is the main control instrument for all divisions servicing customers. Implausible and conspicuous features are promptly clarified between Controlling and the customer division.

(i) Reconciliation between Market Risk Control und Accounting

Market Risk Control determines the trading result per trading desk on a daily basis. The results are reconciled in Accounting each month with the revenues of the trading departments in accordance with profit contribution accounting. All differences are analysed down to instrument level, the main differences being promptly discovered and corrected.

(j) Analysis of special business transactions

The customer-servicing divisions report all special business transactions to Accounting and Controlling on a monthly basis in order to ensure that they are entered correctly and promptly in accounting. Accounting also analyses all main items under other net other operating income and expenses and income from financial assets on a monthly basis.

(k) Plausibility checks

All general ledgers of the income statement are checked for plausibility in an initial step on a monthly basis by comparing them with prior periods and with the budgeted figures. Any irregularities and discrepancies are clarified immediately in cooperation with Accounting and Controlling.

(l) Overall reconciliation of the income statement

The preliminary monthly result is discussed between the responsible Management Board member and the heads of Accounting and Controlling before the accounts are closed. Direct contact between all the main decision-makers is an important element of the internal control process in a Bank of our proportions. Any implausibilities are promptly discussed and clarified. All points still open are also discussed and the responsibility and time frame for clarifying and dealing with them agreed.

(m) Discussion of the monthly results by the Management Board

Immediately after completion of the monthly income statement the results are sent to the Management Board member responsible for accounting. He forwards the key data of the monthly statement together with his comments to the other Management Board members for discussion in the next Management Board meeting. The discussion by the Management Board guarantees the initial monthly plausibility check of the group figures by the overall Management Board. In addition, all Management Board members receive a detailed monthly report drawn up and commented on by Controlling which includes the trend in revenues and costs for both the Group as a whole and the main subsidiaries. The revenues and costs are also shown broken down by product and business segment. An additional quarterly report is drawn up by Controlling in the quarterly results, which makes the revenues and costs of all subsidiaries broken down into private and corporate banking business as well as the revenues and costs of all product specialists in the individual client groups transparent for all Management Board members.

Staff

Number of employees and persons receiving Pensions

We had a total of 2,440 employees at the end of 2010, compared to 2,280 at the end of the previous year. This represents an increase of 7 %. At the end of 2010 we were paying retirement, widow's and orphan's pensions to 554 recipients, compared to 556 at the end of 2009.

Training activities

A total of 36 highly-motivated apprentices are currently working at the Bank towards professional qualifications in banking, office communication and IT. Two of the banking apprentices are attending a parallel part-time Bachelor of Arts study course in "Business Administration" at the Hochschule für Oekonomie & Management. In addition, five apprentices are working towards investment fund specialist qualifications at our subsidiary Internationale Kapitalanlagegesellschaft mbH and a further six towards professional office communication qualifications at HSBC Transaction Services GmbH. We are proud to report that a total of 24 trainees in the HSBC Trinkaus Group successfully completed their training in 2010 as well. Five apprentices passed their final exams with the grade of "very good". We will remain strongly committed to the qualified training of our employees.

Advanced training

We see the professional and social skills as well as the special commitment of our employees as a decisive competitive advantage. Thanks to consistent personnel development we are in the position to constantly offer our clients major expertise and high quality with respect to our advisory service. The individual advanced training measures we offer our employees are tailored to meet their respective requirements and are developed in advance based on detailed analysis. We work together with selected trainers who are familiar with the Bank's requirements and whose excellent qualifications guarantee the successful implementation as well as the needs-oriented preparation and fine-tuning of the measures. For example, we help our employees to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank. We also offer them leadership and acquisition seminars, coaching as well as communication and presentation training. We pay particular attention to training, promoting and supporting our senior management members in their special management functions.

Within the scope of personnel development we promote Bachelor and Master occupational study courses as well as selected specialised training courses. In addition to the Chartered Financial Analyst (CFA) or Certified International Investment Analyst (CIIA) courses, Certified Compliance Professional or Certified Credit Analyst (CCrA) courses were also offered in the year under report, for example. Our broad range of advanced training activities is rounded off by PC and IT seminars and foreign language courses (also in preparation for secondments abroad).

Performance-related remuneration

Performance-related remuneration which is in line with the market remains of major importance for motivating our staff regardless of whether they are tariff or non-tariff employees. In this context, incentives in the form of variable remuneration components which are in keeping with the Bank's long-term goals and strategies play an important role for our managerial staff.

Thanks

The Bank continues to owe its success to the particular commitment and outstanding performance of our employees and we would like to take this opportunity to thank them all. We would also like to thank the Employees' Council and the staff representatives on the Supervisory Board for their constructive and trusting cooperation once again over the past financial year.

Shareholders and Shares

Capital

As at 31 December 2010 the Bank's issued share capital was € 75.4 million (2009: € 70.0 million) divided into 28.1 million (2009: 26.1 million) no-par value shares. 55.2 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges. The capital increase carried out by HSBC Trinkaus & Burkhardt AG was successfully completed at the beginning of July. New shares were issued at ratio of 1 for 13, in other words a total of 2,007,693 shares, at a price of € 75.00 per share. Share capital accounts for € 5.4 million and the capital reserve for € 145.2 million.

All shares have uniform rights and are bearer shares. Each no-par value share carries one vote. The Management Board knows of no limitations affecting voting rights or the transfer of shares.

Within the scope of the capital increase, HSBC Holdings plc, London, increased its share and as of the balance sheet date indirectly held 80.4 % (2009: 78.6 %) of this share capital. Landesbank Baden-Württemberg in Stuttgart directly held a share of 18.9 % (2009: 20.3 %).

Share price and market value

During 2010 our share price fell 9.2 % to € 89.00. The lowest fixing price of the year was € 87.50 and the highest € 113.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.64	317.52
31.12.1990	22,000,000	19.79	435.38
31.12.1995	23,500,000	30.58	718.63
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.75
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80
31.12.2010	28,107,693	89.00	2,501.58

* Adjusted for 1 for 10 stock split on 27 July 1998.

Dividends

For the 2010 financial year we propose paying a dividend of € 2.50 per share (2009: € 2.50 per share). With a dividend total of € 70.3 million (2009: € 65.3 million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2010.

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2010	31.12.2009	Change in €m	Change in %
Cash reserve	(20)	336.1	177.0	159.1	89.9
Loans and advances to banks	(5, 21)	1,402.9	2,429.4	–1,026.5	–42.3
Loans and advances to customers	(5, 22)	3,089.6	2,687.5	402.1	15.0
Net loan impairment provision	(7, 23)	–49.1	–42.9	–6.2	14.5
Trading assets	(5, 24)	10,130.6	10,005.7	124.9	1.2
Financial assets	(5, 25)	3,305.9	3,126.1	179.8	5.8
Interests in associates	(26)	38.0	10.6	27.4	> 100.0
Property, plant and equipment	(10, 27)	83.1	83.3	–0.2	–0.2
Intangible assets	(11, 27)	38.9	44.1	–5.2	–11.8
Taxation recoverable	(15, 28)	4.3	13.0	–8.7	–66.9
Current		4.3	13.0	–8.7	–66.9
Deferred		0.0	0.0	0.0	0.0
Other assets	(29)	203.7	194.8	8.9	4.6
Total assets		**18,584.0**	**18,728.6**	**–144.6**	**–0.8**

Liabilities in €m	(Note)	31.12.2010	31.12.2009	Change in €m	Change in %
Deposits by banks	(5, 32)	1,180.4	2,697.6	–1,517.2	–56.2
Customer accounts	(5, 33)	10,148.0	9,062.1	1,085.9	12.0
Certificated liabilities	(34)	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	5,200.1	5,196.7	3.4	0.1
Provisions	(14, 36)	96.5	152.2	–55.7	–36.6
Taxation	(15, 37)	66.7	67.7	–1.0	–1.5
Current		52.6	61.1	–8.5	–13.9
Deferred		14.1	6.6	7.5	> 100.0
Other liabilities	(38)	214.1	95.3	118.8	> 100.0
Subordinated capital	(39)	378.4	384.4	–6.0	–1.6
Shareholders' equity	(40)	1,289.7	1,062.5	227.2	21.4
Share capital		75.4	70.0	5.4	7.7
Capital reserve		354.0	216.9	137.1	63.2
Retained earnings		627.2	569.6	57.6	10.1
Valuation reserve for financial instruments		125.3	108.6	16.7	15.4
Valuation reserve for actuarial profits and losses		–29.8	–23.3	–6.5	27.9
Valuation reserve from currency conversion		–1.8	–0.2	–1.6	> 100.0
Consolidated profit available for distribution		139.4	120.9	18.5	15.3
Minority interests	(41)	0.1	0.1	0.0	0.0
Total equity and liabilities		**18,584.0**	**18,728.6**	**–144.6**	**–0.8**

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

Income statement in €m	(Note)	2010	2009	Change	
				€ m	in %
Interest income		198.5	235.1	−36.6	−15.6
Interest expense		69.8	91.8	−22.0	−24.0
Net interest income	(42)	128.7	143.3	−14.7	−10.2
Net loan impairment and other credit risk provisions	(7, 44)	7.7	22.4	−14.7	−65.6
Share of profit in associates	(43)	0.4	0.6	−0.2	−33.3
Fee income		683.9	575.1	108.8	18.9
Fee expenses		279.9	228.9	51.0	22.3
Net fee income	(45)	404.0	346.2	57.8	16.7
Net trading income	(46)	120.4	123.0	−2.6	−2.1
Administrative expenses	(47)	439.3	400.8	38.5	9.6
Income from financial assets	(48)	−0.6	−24.0	23.4	−97.5
Net other income	(49)	4.1	−2.2	6.3	>100.0
Pre-tax profit		**210.0**	**163.7**	**46.3**	**28.3**
Tax expenses	(50)	70.6	54.5	16.1	29.5
Net profit for the year		**139.4**	**109.2**	**30.2**	**27.7**
Group profit/loss attributable to minority interests		0.0	1.6	−1.6	−100.0
Group profit/loss attributable to HSBC Trinkaus shareholders		139.4	107.6	31.8	29.6

Reconciliation from Net Income to Comprehensive Income

in €m	2010	2009
Net profit for the year	139.4	109.2
Gains/losses not recognised in the income statement	8.6	62.1
of which from financial instruments	16.7	61.1
of which from actuarial results	−6.5	1.1
of which from currency conversion	−1.6	−0.1
Comprehensive income	**148.0**	**171.3**
Attributable to:		
Minority interests	0.0	1.6
HSBC Trinkaus shareholders	148.0	169.7

Cf. Note 40 on the development of unrealised gains/losses from financial instruments.

Earnings per share

	2010	2009
Net income after tax in €m	139.4	109.2
Minority interests in €m	0.0	1.6
Net profit after tax and minority interests in €m	139.4	107.6
Average number of shares in circulation in million	27.1	26.1
Earnings per share in €	**5.14**	**4.12**
Undiluted earnings per share in €	**5.14**	**4.12**

No subscription rights from the capital increase carried out in July 2010 were outstanding at the end of the 2010 financial year. There was therefore no calculable dilution effect.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 18) had a material impact on earnings per share. The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2008: € 2.50 per share).

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Valuation reserve for financial instruments	Valuation reserve for actuarial profits and losses	Valuation reserve from currency convesion	Consolidated profit available for distribution	Shareholders' equity	Minority interests	Total including minority interests
At 31.12.2008	70.0	218.5	543.8	47.5	−24.4	−0.1	99.7	955.0	16.5	971.5
Dividend distribution							−65.3	−65.3		−65.3
Retention from 2008 profit available for distribution			20.9				−20.9			
Addition from net profit for the year							107.6	107.6	1.6	109.2
Changes in the group of consolidated companies							−0.2	−0.2	−18.0	−18.2
Share-based payments		−1.6	4.9					3.3		3.3
Other changes				61.1	1.1	−0.1		62.1		62.1
At 31.12.2009	70.0	216.9	569.6	108.6	−23.3	−0.2	120.9	1,062.5	0.1	1,062.6
Dividend distribution							−65.3	−65.3		−65.3
Retention from 2009 profit available for distribution			55.6				−55.6			
Addition from net profit for the year							139.4	139.4		139.4
Changes on account of the capital increase	5.4	145.2						150.6		150.6
Share-based payments		−8.1	2.2					−5.9		−5.9
Other changes			−0.2	16.7	−6.5	−1.6		8.4		8.4
At 31.12.2010	75.4	354.0	627.2	125.3	−29.8	−1.8	139.4	1,289.7	0.1	1,289.8

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2010	2009
Net profit for the year	139.4	109.2
Non-cash items in net profit and adjustments to reconcile net profit with net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	–32.8	88.1
Net profit from the sale of investments and property, plant and equipment	0.7	0.6
Other adjustments (net)	–63.7	–96.2
Sub-total	43.6	101.7
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	1,026.5	550.3
Loans and advances to customers	–404.7	1,394.4
Securities held for trading	–121.5	1,520.7
Other assets	–177.6	–900.8
Liabilities	–440.7	–2,563.0
Other liabilities	91.0	–21.8
Total adjustments	–27.0	–20.2
Interest receipts	196.7	232.9
Dividend receipts	2.3	2.2
Interest payments	–69.8	–91.8
Income taxes paid	–51.5	–32.7
Cash flow from operating activities	**94.3**	**192.1**
Proceeds from the sale of		
Financial assets	0.1	0.0
Property, plant and equipment	1.4	4.5
Payments for the acquisition of		
Financial assets	–0.3	–0.9
Property, plant and equipment	–15.8	–18.6
Cash flow from investing activities	**–14.6**	**–15.0**
Dividends paid to HSBC Trinkaus shareholders	–65.3	–65.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	–6.0	–74.3
Cash inflow from the capital increase	150.6	0.0
Cash flow from financing activities	**79.3**	**–139.6**

Cash and cash equivalents at beginning of period	**177.0**	**139.5**
Cash flow from operating activities	94.3	192.1
Cash flow from investing activities	–14.6	–15.0
Cash flow from financing activities	79.3	–139.6
Cash and cash equivalents at end of period	**336.0**	**177.0**

Notes to the Consolidated Financial Statements

Fundamental accounting policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2010 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration.

Confirmation of the financial statements is carried out in accordance with the legal provisions and – based on a proposal by the Management Board – is on principle the function of the Supervisory Board. Following approval, the Annual General Meeting passes the resolution on the appropriation of distributable profit.

To enhance transparency, all figures have been reported in millions of euros. The figures have been rounded commercially, which may result in marginal deviations in the consolidated financial statements to hand within the scope of generating figures and calculation percentages.

The consolidated financial statements were prepared and valued on a going concern basis.

The consolidated financial statements include the balance sheet, the consolidated statement of comprehensive income, the statement of changes in equity, cash flow statement and the notes.

At the end of 2010, HSBC Holdings plc had an indirect interest of 80.4 % (2009: 78.6 %) in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on accounting, valuation and consolidation methods

1 ▸ Scope of Consolidation

The consolidated financial statements include as subsidiaries all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt AG, directly or indirectly holds the majority of the voting rights or over which it can exercise a controlling influence.

HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, which is headquartered in Düsseldorf, was established in the financial year under report as a joint venture with Société Financière et Mobilière, Paris and recognised as equity on the balance sheet for the first time.

Dr. Helfer Verwaltungsgebäude Luxemburg KG, Düsseldorf was merged with HSBC Trinkaus & Burkhardt AG, Düsseldorf and is therefore no longer included within the scope of consolidation.

International Transaction Services GmbH was renamed HSBC Transaction Services GmbH in the year under report.

In addition, we have fully consolidated two special funds and one closed-end real estate fund in accordance with SIC 12. A detailed list of the consolidated companies in addition to these funds can be found in Note 63.

2 ▸ Consolidation Principles

In accordance with IAS 27.24, the accounting policies were applied consistently throughout the Group.

Differences arising from the consolidation of investments are calculated on the basis of the value of the new companies on the date of acquisition.

Intra-group claims and liabilities, income and expenses have been offset against each other; inter-company profits have been eliminated.

3 ▸ Foreign Currency Translation

For the purposes of foreign currency translation, pursuant to IAS 39 in conjunction with IAS 21, we distinguish between monetary and non-monetary financial instruments. Revaluations resulting from currency translation of monetary items are always recognised in the income statement. In the case of non-monetary items, the treatment of currency results depends on the way in which the other market price-related revaluation results of the corresponding instrument are treated.

Income and expenses resulting from the translation of foreign currencies are entered under the same item in the income statement as the corresponding income and expenses from the respective underlying transaction.

Foreign exchange forwards are translated at the relevant forward rate on the balance sheet date. Spot foreign exchange trades and assets and liabilities denominated in foreign currencies, are translated at the official reference rate of the European Central Bank or at other suitable spot rates of the last trading day of the year.

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. The equity capital available (subscribed capital, profit, capital, revaluation surplus) at the time of initial consolidation must be converted at the reporting rate (closing rate) on the date of initial consolidation and maintained at a constant level. Additions to retained earnings must be converted at the conversion rate of the respective year in which the corresponding net income was generated. Translation gains or losses arising from capital consolidation are presented separately under equity.

Translation recognised in the income statement had no significant impact on the 2010 financial year, as in the previous year. Translation differences without effect on the income statement amounted to € –1.8 million (2009: € –0.2 million) and relate to a closed-end real estate fund in Australia as well as to a subsidiary in Hong Kong (cf. Note 63).

4 ▸ Business Combinations

IFRS 3 defines the application of the acquisition method for business combinations in which the buyer takes control of the company acquired. After the buyer's procurement costs are calculated, the assets and liabilities acquired must be valued at their fair value at the time of acquisition, within the scope of the business combination.

The extensive recognition and measurement provisions of IFRS 3 for tangible and intangible assets purchased, as well as for contingent liabilities and other items on the balance sheet, are applied. This also includes assets (such as client contracts) that did not qualify previously for recognition in financial statements.

If goodwill is to be recognised, because the purchase costs exceed the fair value of the net assets acquired, it must be reviewed for impairment at least once a year (impairment test) in accordance with IAS 36.

5 ▶ Financial Instruments

Recognition
HSBC Trinkaus recognises financial instruments in the balance sheet for the first time when the Group becomes a contractual party to the corresponding agreement, in accordance with IAS 39. Recognition for spot transactions (regular way contracts) is uniform on the trading day (trade date accounting), otherwise on the settlement date.

Financial instruments are derecognised fully, provided the Group has transferred the contractual rights to receipt of the cash flows from the financial instrument, plus all material risks and opportunities under such assets. If all opportunities and risks are not transferred, recognition is at the amount of the residual risk position, if we continue to exercise control over the financial instrument (continuing investment).

Transferred financial instruments, which do not qualify for derecognition, comprise mainly interest-bearing securities pledged as collateral within the scope of repurchase transactions or shares borrowed under securities lending transactions. Owing to the legal obligation to retransfer securities, all opportunities and risks incurred in relation to the genuine repurchase transactions remain with the transferor. The corresponding risks are: counterparty risk, foreign exchange risk and market risk. The same principle applies to securities lending transactions.

Reporting
Reporting, as well as the corresponding measurement classes and measurement categories, are included in the following overview.

Measurement classes (IFRS 7)	Balance sheet item	Measurement category (IAS 39)
Measurement at amortised cost	Cash reserve	
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
	Certificated liabilities	Other liabilities
	Subordinated capital	Other liabilities
Measurement at fair value	Financial assets	Available for sale
	Trading assets/liabilities	Held for trading
Derivatives in hedging relationships	Trading assets/liabilities	
Off-balance sheet business (IAS 37)	Contingent liabilities	
	Other liabilities	

IFRS 7 redefines the disclosure of financial instruments and groups the reporting rules together in one standard. Furthermore, the standard contains disclosure requirements of risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

Measurement
All financial instruments are measured at fair value at acquisition. This generally equates to the transaction price initially, i.e. the fair value of the consideration. In addition, we allocate all financial instruments at initial recognition to the categories as defined in IAS 39, which are decisive for the subsequent measurement. We have implemented the rules as follows at the HSBC Trinkaus Group:

(a) Financial assets or liabilities at fair value through profit or loss
This category differentiates between financial instruments that are either classified irrevocably as held-for-trading (HfT) or at fair value through profit or loss upon initial recognition (fair value option). As in the previous year, we did not exercise the fair value option, so that the corresponding sub-category is not filled at present.

Besides all derivatives – including embedded derivatives which are required to be separated – financial instruments in the held-for-trading category include all positions which have been acquired for the purpose of generating short-term gains from changes in the market price.

As a rule, subsequent measurement is at fair value, where publicly traded market prices, if available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, such as those implemented by external software providers in the respective software. These are mainly present value methods and option price models. We have cooperated closely with HSBC to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters imposed are as differentiated as possible – for example, according to lifetimes, strike prices, etc. The choice of data sources used plus the allocation of measurement parameters and applicable measurement method for the financial instruments in question are independent of trading. Provided all material measurement parameters cannot be observed for specific products, the measurement results from new transactions (day-1 profit or loss) in these products are not recognised in the income statement until maturity or when the position is closed out. There is no distribution over the transaction term. All realised gains and losses, as well as the unrealised measurement results, are reported under net trading income.

b) Held-to-maturity investments
As in the previous year, no financial instruments were allocated to the held-to-maturity category.

c) Loans and receivables
The "loans and receivables" category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. Financial instruments are the exception here, which, owing to the short-term intention of the category to resell the assets, are allocated to the held-for-trading category. The corresponding loans and receivables are measured at amortised cost. Discounts and premiums are recorded proportionately within interest income. Impairments on loans and receivables are reported under net loan impairment provision.

(d) Financial assets available-for-sale
The "available-for-sale" category includes on the one hand all financial instruments and is on the other the residual variable of the financial assets; in other words, it also includes the financial instruments not allocated to any of the three other measurement categories of IAS 39. These consist of securities (including registered bonds), acquired loans and advances and investments.

Subsequent measurement of financial instruments in this category is at fair value. The measurement methods are identical to those used for the measurement of held-for-trading financial instruments. Changes in value vis-à-vis the net acquisition costs are reported under shareholders' equity with no effect on the income statement.

There are no sufficient measurement parameters for holdings in partnerships and specific unlisted public limited companies: on the one hand, no price is quoted for these financial instruments in an active market. On the other, it is impossible to reliably determine the market value, since the volatility of possible securities is too great or no probability of event can be attributable to the individual securities. These holdings are measured at amortised cost.

In the event of a reduction in value due to counterparty or sovereign risk – impairments – (direct) write-downs to the lower fair value are made. The impairment test is carried out on the occasion of every interim report. The impairments are reported in income from financial assets. Objective evidence of impairment on a debt instrument is included as income immediately. Write-ups affecting the income statement up to maximum amortised cost are recognised as soon as the reason for the write-down no longer applies. Equity instruments are written down if the fair value is significantly or permanently below original cost. A decline in the fair value of at least 20 % below the original cost is considered significant. If the fair value has fallen permanently below original cost in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the fair value in both cases. If the reasons for impairment cease to exist for equity instruments – unlike debt instruments – no write-up with effect on the income statement is made. Rather, the corresponding write-ups are recognised directly in retained earnings.

(e) Other liabilities
The "other liabilities" category includes all financial liabilities that were not allocated to the "fair value" category. They are therefore not measured at fair value through profit and loss, but at amortised cost: as a rule, other liabilities are carried at their settlement amount. Discounts and premiums are recognised proportionately within interest expense. Non-interest bearing liabilities, such as zero coupon bonds, are measured at their interest rate as at the balance sheet date.

(f) Reclassification
As in the previous year, the option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

6 ▸ Hedge Accounting

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, HSBC Trinkaus applied the provisions for the reporting of hedge relationships in accordance with IAS 39 (hedge accounting). The fair value of the fixed-income bonds (hedged item) depends on changes in the market interest rate (e.g. five-year rate) on the one hand and on liquidity and risk premiums for the issuer (so-called spreads) on the other. HSBC Trinkaus hedges against market interest rate-induced volatility (designated portion of the hedged item) by concluding interest rate swaps with other banks (hedging instrument), which largely compensates for the fluctuations in the fair value of the bonds. This hedging of fair value fluctuations (so-called fair value hedges), the interest rate-induced volatility plus the interest rate swaps of the fixed-income bonds are recognized in the income statement in accordance with IAS 39. The spread-related fair value fluctuations of the bonds are not hedged (unhedged portion of the hedged item). These are transferred to retained earnings in line with the subsequent measurement of available-for-sale securities, without effect on the income statement.

The reporting of hedging relationships in the balance sheet in accordance with IFRS is inked to a series of requirements that are largely related to the documentation of the hedging relationships and effectiveness of the hedging measures. The following data in particular must be documented at the time of entering into a hedging relationship (inception of a hedge): the identification of the hedge and the underlying transaction, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

HSBC Trinkaus uses a linear regression model to assess the effectiveness of the hedge transaction. The model examines the linear correlation between the cumulative changes in value in the underlying transaction and the cumulative changes in value of the hedge transaction. The so-called coefficient of determination (R-square) provides information about the direction of the correlation through the quality of the regression and the steepness of the regression straight line (slope).

The proof of effectiveness requires higher expected effectiveness for a hedging relationship in the future (prospective effectiveness) on the one hand. Proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness) on the other. Sufficient effectiveness within the scope of the prospective test requires an R-square of greater than 0.9 and a slope of between −0.9 and −1.1. An R-square of greater than 0.8 and a slope of between −0.8 and −1.2 is adequate for the retrospective effectiveness test.

7 ▸ Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions on the one hand as net loan impairment provision on the assets side and on the other as credit risks on the liabilities side. The item net loan impairment differentiates between individually assessed impairments/provisions on the one hand and collectively assessed impairments/provisions on the other.

Individually assessed impairments in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 23 ratio categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on counterparty risk in the consolidated financial statements for further explanations – especially on calculating impairments/provisions.

Furthermore, write-downs/provisions are created on a portfolio basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general impairment/provision will then be calculated on the basis of the respective default probabilities and economic indicators.

Where it is determined that a loan cannot be repaid, the uncollectible amount is first written off against any existing individually assessed impairments and/or directly recognised as expense in the profit and loss account.

8 ▸ Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities (cf. Note 35).

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet item trading assets (cf. Note 24); this facilitates more appropriate reporting. Securities purchased under agreements to resell are not reported.

The Bank does not enter into non-genuine repurchase transactions.

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions were reported under the balance sheet item trading assets or trading liabilities (cf. Notes 24 and 35).

9 ▸ Share of Profit in Associates

As associated enterprises and joint ventures, all companies where HSBC Trinkaus & Burkhardt AG has a significant Influence – either directly or indirectly – or has joint control with the other company, are carried in the balance sheet. A significant influence or joint control is assumed for voting interests of between 20 % and 50 %. On the one hand, we reported the associated company SINO AG, Düsseldorf, under the share of profit in associates. Owing to SINO AG's different financial year, the figures published for the previous quarter are used in the accounting process. On the other hand, HSBC Global Asset Management (Switzerland) AG, Zurich, which was established as a joint venture with HSBC Global Asset Management (France), Paris and HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf, which was newly established as a joint venture with Société Financière et Mobilière, Paris, are taken into consideration here. Shares in associated companies and joint ventures are consolidated at equity.

10 ▸ Property, Plant and Equipment

The property, plant and equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment.

Hardware and other operational and business equipment are valued at cost less regular depreciation. The prospective useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the expected useful life of the asset and is based on the following useful lives throughout the Group:

	Useful life in years
Hardware	3
Motor vehicles	6
Fixtures/operating facilities	10
Furniture	13
Buildings	50

Depreciation that exceeds wear and tear-related erosion is taken into consideration under impairments. Where the reasons cease, corresponding write-ups are made.

11 ▸ Intangible Assets

Items disclosed under intangible assets include standard software. In-house development work carried out within the scope of software projects is capitalised in accordance with IAS 38. Intangible assets are valued at purchase or production cost less regular depreciation on a straight-line basis over the expected useful life of the asset of three to ten years. In addition to regular depreciation, impairment tests are also carried out to value fixed assets (cf. Note 10).

Intangible assets also include the goodwill resulting from the acquisition of HSBC Transaction Services GmbH (formerly referred to as ITS Transaction Services GmbH). The goodwill is not subject to any scheduled amortisation. An impairment test is carried out instead at least once a year, in accordance with IAS 36. The enterprise value is calculated using a discounted cash flow method, where the future cash flows are estimated and discounted by an interest rate that adequately reflects the risks involved.

12 ▸ Leasing

Group companies are involved in the leasing business exclusively as lessees. All leasing contracts signed are operating lease agreements. In operating lease agreements, all risks and benefits attendant upon ownership remain with the lessor, which also carries the leased item on its balance sheet. For this reason, the Group treats lease payments as rental payments reported under administrative expenses.

13 ▸ Treasury Bonds and Shares

The Bank holds its treasury bonds only to a limited extent and, in accordance with IFRS requirements, offsets them against the liability items arising from the issuance of bonds.

As at the end of 2010, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 52,376 treasury shares were bought at an average price of € 98.27 (2009: € 87.37) and sold at an average price of € 90.63 (2009: € 87.47). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.16 % (2009: 0.28 %) of subscribed capital.

14 ▸ Provisions

Provisions for pensions, for credit risks and uncertain liabilities are reported under provisions.

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method. Within the scope of a Contractual Trust Arrangement (CTA) certain assets were transferred into a trust corporation as collateral for pension obligations and therefore qualified as plan assets within the meaning of IAS 19.7. The expected income from the plan assets is offset against the expected pension expenses in the income statement. Actuarial profits and losses from the performance of the plan assets and the pensions are reported under shareholders' equity with no effect on profits after the deduction of deferred taxes.

Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure. We report provisions for credit risks under net loan impairment provision.

15 Taxation Recoverable and Taxation

Current tax expenses are calculated in accordance with the tax rates applicable for each individual company. Current taxation recoverable is offset against current taxation provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when realignment of the valuations occurs. The deferred taxation is calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable and deferred taxation will be adjusted accordingly (cf. Note 50).

16 Share-Based Payments

Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (one, three and five years) and allows staff to save up to the equivalent of GBP 250 per month. In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses (service costs) derived from this – apportioned to the respective blocking period (vesting period) – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (so-called acceleration of vesting). If an existing bonus programme is modified, a distinction must be made as to whether the fair value of the approval at the time of the modification exceeds or falls short of the original fair value.

If the modified fair value exceeds the original fair value of the approval, the excess amount must be recognised in the income statement, in addition to the previous service costs over the vesting period. If the fair value is lower, the previous service costs remain unchanged; in other words, the modification is ignored.

In addition, the performance-related remuneration components for employees and the Management Board are, over a certain volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in different tranches within or at the end of the vesting period and is generally subject to their continued service for the Bank. It is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; personnel expenses are spread over the vesting period. The resulting transfer obligation is re-valued every month, whereby the valuation result is recognised directly in the capital reserves.

17 Reporting of Income and Expenses

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers and income from financial assets. Interest expense includes expenses arising from deposits by banks and customers, as well as liabilities in certificate form and subordinated capital. The Bank recognises dividends at the time of the legal creation of the dividend entitlement with an effect on the income statement.

Net fee income includes above all income from securities, foreign exchange and derivatives business, as well as from special advisory services (e.g. Investment Banking). Fee income and expenses are recognised in the income statement whenever the service is performed.

All unrealised and realised trading results are reported in net trading income. This also includes interest and dividend income alongside price gains/losses, as well as the proportional refinancing costs of the trading activities.

The results from derivatives held in the banking book are also reported in net trading income.

18 ▸ IFRS Treatment Applied

The other standards or interpretations, which were applied for the first time in 2010, had no material impact.

On 12 November 2009, the IASB published the Standard IFRS 9, Financial Instruments. The aim of the standard is to completely revise the accounting of financial instruments in a three-part project and thus replace the standard IAS 39 applicable to date. IFRS 9 will regulate the classification and measurement of financial assets and have a substantial Influence on HSBC Trinkaus' accounting. On 28 October 2010, the IASB published supplements to IFRS 9 on accounting for financial liabilities. The IASB thus concludes the classification and measurement phase for replacing these regulations in IAS 39. The adoption of the standard is mandatory for financial years starting on or after 1 January 2013. Early adoption is permitted for 2009 year-end financial statements. HSBC Trinkaus has not been able to make use of this option as the standard is still awaiting EU endorsement.

Other standards and interpretations not yet compulsory for 2010 will not have any material effect on the Bank.

19 ▸ Material Events Occurring After the Balance Sheet Date

No transactions materially affecting the assets, financial position and profitability of the company took place during the period between the balance sheet date and the date on which these accounts were prepared.

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2010	31.12.2009
Cash in hand	3.3	3.6
Balances held with central banks	332.8	173.4
Total	**336.1**	**177.0**

Balances held with central banks are held mainly with the Deutsche Bundesbank and continue to be almost exclusively in euros.

The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

21 Loans and Advances to Banks

in €m	31.12.2010	31.12.2009
Current accounts	328.3	361.2
Money market transactions	955.8	1,923.8
of which overnight money	78.6	109.8
of which term deposits	877.2	1,814.0
Other loans and advances	118.8	144.4
Total	**1,402.9**	**2,429.4**
of which to domestic banks	398.4	1,442.0
of which to foreign banks	1,004.5	987.4

Loans and advances to banks also include our deposits within the HSBC Group. The reduction corresponds to the decline in the volume of deposits to banks and is largely attributable to the reporting date.

22 ▸ Loans and Advances to Customers

in €m	31.12.2010	31.12.2009
Current accounts	1,024.2	980.9
Money market transactions	631.9	620.9
of which overnight money	67.2	79.3
of which term deposits	564.7	541.6
Loan accounts	1,412.4	1,063.4
Other loans and advances	21.1	22.3
Total	**3,089.6**	**2,687.5**
of which domestic customers	1,811.1	1,933.0
of which foreign customers	1,278.5	754.5

The increase in the number of loan accounts is primarily attributable to the higher volume of export financings within the scope of forfeiting. The factoring business, which was offered for the first time in 2010 as part of our growth strategy, also contributed to the result. The increase in the volume held on the current accounts is largely attributable to the reporting date.

23 ▸ Net Loan Impairment and Other Credit Risk Provisions

Net loan impairment and other credit risk provisions are made up as follows:

in €m	31.12.2010	31.12.2009
Net loan impairment provision	49.1	42.9
Provisions for credit risks	5.7	6.8
Net loan impairment and other credit risk provisions	**54.8**	**49.7**

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. The rise is a result of the increase in individually assessed impairments, whereas collectively assessed impairments fell during the year under report. This reflects the largely positive economic trend.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2010	2009	2010	2009	2010	2009
As at 01.01.	**29.5**	**15.0**	**13.4**	**6.4**	**42.9**	**21.4**
Reversals	3.4	3.5	2.5	0.0	5.9	3.5
Utilisation	3.1	0.9	0.0	0.0	3.1	0.9
Additions	13.8	18.9	0.0	7.0	13.8	25.9
Direct write-offs	1.4	0.0	0.0	0.0	1.4	0.0
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.	**38.2**	**29.5**	**10.9**	**13.4**	**49.1**	**42.9**

Provisions for credit risks developed as follows:

	Provisions				Total	
	Individually assessed		Collectively assessed			
in €m	2010	2009	2010	2009	2010	2009
As at 01.01.	**3.2**	**5.2**	**3.6**	**1.6**	**6.8**	**6.8**
Reversals	1.1	2.0	0.0	0.0	1.1	2.0
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.0	2.0	0.0	2.0
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.	**2.1**	**3.2**	**3.6**	**3.6**	**5.7**	**6.8**

24 ▸ Trading Assets

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	4,590.7	4,839.7
of which:		
public-sector issuers	2,334.0	2,294.5
other issuers	2,256.7	2,545.2
of which:		
listed	4,441.7	4,404.4
unlisted	149.0	435.3
Equities and other non-fixed-income securities	1,004.4	832.4
of which:		
listed	1,003.9	832.3
unlisted	0.5	0.1
Tradable receivables	2,334.8	1,917.2
Positive market value of derivatives	1,828.7	1,992.6
of which:		
OTC derivatives	1,436.0	1,538.3
exchange-traded derivatives	392.7	454.3
Reverse repos	72.3	72.3
Securities lending	0.0	0.3
Security in the derivatives business	296.2	346.6
Derivatives in hedging relationships	0.9	0.2
Derivatives held in the banking book	2.6	4.4
Total	**10,130.6**	**10,005.7**

Trading assets remained largely unchanged. Tradable receivables are recognised mainly as promissory note loans and registered bonds. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 35).

The securities lending and collateral items in the derivatives trading business comprise funds that we pledged as collateral (cf. Notes 31 and 61).

25 ▸ Financial Assets

Financial assets comprise the Bank's strategic positions, which are broken down as follows:

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	2,776.3	2,567.4
of which:		
public-sector issuers	714.6	660.5
other issuers	2,061.7	1,906.9
of which:		
listed	2,727.5	2,477.2
unlisted	48.8	90.2
Equities	24.3	29.8
Investment certificates	100.1	145.3
Promissory note loans	293.6	277.3
Investments	111.6	106.3
Total	**3,305.9**	**3,126.1**

All financial assets are assigned to the available-for-sale category in accordance with IAS 39.

The difference between the fair value and amortised cost price is as follows:

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	78.3	64.0
Equities	9.3	5.7
Investment certificates	11.0	6.7
Promissory note loans	19.3	18.8
Investments	39.4	40.4
Total	**157.3**	**135.6**

26 ▸ Share of Profit in Associates

The following table provides information on the development of share of profit in associates:

in €m	2010	2009
Book value as at 01.01.	**10.6**	**10.1**
Additions	27.5	0.3
Share of results of financial year	0.4	0.6
Elimination of interim result	0.0	0.0
Dividend distribution	–0.5	–0.4
Disposals	0.0	0.0
Book value as at 31.12.	**38.0**	**10.6**

HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf, was established during the year under report (cf. Note 9) and was consolidated at equity for the first time.

The market value of the retained SINO AG shares amounted to € 3.9 million as at the balance sheet date (2009: € 6.3 million). All in all, the assets and liabilities of the companies consolidated at equity amount to € 283.7 million (2009: € 10.2 million) and € 1.9 million (2009: € 7.0 million), respectively, on pre-tax profit of € 3.9 million (2009: € 4.0 million).

27 ▸ Investment Overview

in €m	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2010	92.0	70.4	162.4	99.3
Increases	0.0	10.4	10.4	5.4
Disposals	0.0	5.4	5.4	0.6
Acquisition costs as at 31.12.2010	92.0	75.4	167.4	104.1
Depreciation as at 01.01.2010	36.2	42.9	79.1	55.2
Scheduled depreciation	1.2	8.9	10.1	10.2
Non-scheduled depreciation	–0.5	0.0	–0.5	0.0
Depreciation of reversals	0.0	4.4	4.4	0.2
Depreciation as at 31.12.2010	36.9	47.4	84.3	65.2
Carrying amount as at 31.12.2010	**55.1**	**28.0**	**83.1**	**38.9**
Carrying amount as at 31.12.2009	**55.8**	**27.5**	**83.3**	**44.1**

As in the previous year, foreign currency translation did not affect property, plant and equipment values.

28 ▸ Taxation Recoverable

in €m	31.12.2010	31.12.2009
Current taxation recoverable	4.3	13.0
Deferred taxation recoverable	0.0	0.0
Total	**4.3**	**13.0**

Current taxation recoverable relates predominately to Luxembourg taxes.

29 ▸ Other Assets

As in 2009, other assets of € 203.7 million (2009: € 194.8 million) include one building with a book value totalling € 158.0 million (2009: € 128.8 million), which is marketed within the framework of a closed-end real estate fund. No interest on borrowing was activated in the current year (2009: € 4.8 million). Additionally, this item predominately includes excess cover from our CTAs of € 10.5 million (2009: € 18.7 million) and other taxes of € 1.2 million (2009: € 11.9 million).

30 ▸ Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	137.5	126.9
Profit-participation certificates	6.7	6.7
Total	144.2	133.6

31 ▸ Repurchase Agreements and Securities Lending

The following overview shows the securities we pledged and which cannot be written off in accordance with IAS 39, as well as the associated financial liabilities.

In addition to treasury securities, we also pledged securities that we had previously received within the scope of securities lending transactions and repurchase agreements. All of the transferred securities are reported under trading assets.

in €m	31.12.2010		31.12.2009	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	66.0	4.1	38.0	11.4
Total	66.0	4.1	38.0	11.4

The following table provides an overview of the securities received:

in €m	31.12.2010		31.12.2009	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	88.9	72.3	88.9	72.3
of which may be sold or pledged	88.9	0.0	88.9	0.0
of which are already sold or pledged	0.0	0.0	0.0	0.0
Securities lending transactions	136.5	0.0	69.5	0.3
of which may be sold or pledged	114.2	0.0	60.9	0.0
of which are already sold or pledged	22.3	0.0	8.6	0.0
Total	**225.4**	**72.3**	**158.4**	**72.6**

The overview includes the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 61). The transactions were carried out at normal market conditions.

32 ▸ Deposits by Banks

in €m	31.12.2010	31.12.2009
Current accounts	394.4	563.5
Money market transactions	583.5	1,961.3
of which overnight money	3.0	11.9
of which term deposits	580.5	1,949.4
Other liabilities	202.5	172.8
Total	**1,180.4**	**2,697.6**
of which domestic banks	352.7	741.5
of which foreign banks	827.7	1,956.1

As at 31 December 2010, deposits by banks secured by charges on real property amounted to € 71.1 million (2009: € 65.6 million). In addition to the balances on our accounts held with our correspondent banks, deposits by banks comprise mainly deposits from other banks of the HSBC Group. The sharp decline was attributable to the reporting date.

33 ▸ Customer Accounts

in €m	31.12.2010	31.12.2009
Current accounts	6,488.3	5,686.8
Money market transactions	3,332.0	3,040.4
of which overnight money	439.0	346.4
of which term deposits	2,893.0	2,694.0
Savings deposits	43.0	33.6
Other liabilities	284.7	301.3
Total	**10,148.0**	**9,062.1**
of which domestic customers	7,167.0	6,193.1
of which foreign customers	2,981.0	2,869.0

Customer accounts continue to represent our main refinancing source and are almost at the levels seen in the record year of 2007. The positive increase in overnight and term deposits is largely attributable to the reporting date. The high level of customer deposits can be seen as the clear commitment of our customers to our solid business policy.

34 ▸ Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10.0 million (2009: € 10.0 million).

35 ▸ Trading Liabilities

in €m	31.12.2010	31.12.2009
Negative market value of derivatives	2,196.4	2,452.9
Discount certificates, promissory note loans, bonds and warrants	2,852.7	2,637.1
Delivery obligations arising from securities sold short	84.1	17.7
Securities lending	4.1	11.4
Security in the derivatives business	57.0	74.4
Derivatives in hedging relationships	5.8	3.2
Total	**5,200.1**	**5,196.7**

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, is the direct responsibility of the trading divisions. These issues are recognised accordingly as trading liabilities pursuant to IAS 39 and are valued at fair value. The decline in the negative market value of the derivatives corresponds with the lower positive market value of the derivatives (cf. Note 24).

The securities lending and collateral items in the derivatives trading business include funds that we have received as collateral.

36 Provisions

in €m	As at 01.01.2010	Utilisation	Reversals	Additions/ compounding	Transfers	Actuarial result	At 31.12.2010
Provisions for pensions and similar obligations	12.1	6.2	0.0	5.4	–8.1	9.6	12.8
Provisions related to human resources	58.6	42.8	0.7	1.7	–14.8	0.0	2.0
Provisions for credit risks	6.8	0.0	1.1	0.0	0.0	0.0	5.7
Provisions for other taxes	2.7	0.0	0.0	0.0	0.0	0.0	2.7
Other provisions	72.0	19.9	9.7	32.1	–1.2	0.0	73.3
Provisions	**152.2**	**68.9**	**11.5**	**39.2**	**–24.1**	**9.6**	**96.5**

Provisions for credit risks include provisions for impending losses in connection with sureties, acceptances and credit commitments. They are a part of net loan impairment and other credit risk provisions (cf. Note 23).

The provisions for other taxes essentially include expected payment obligations resulting from auditing for taxes on commercial capital, turnover and capital from the previous years.

Other provisions include above all, provisions for contingent liabilities, especially in connection with risks in the real estate business, with interest rate risks from tax audits, as well as from IT agreements and goodwill provisions.

With uncertainties eliminated, previous provisions of € 14.8 million related to human resources and € 1.2 million on other provisions were transferred to other liabilities.

Provisions for pensions and similar obligations

Various pension payment and benefit regulations exist for employees depending on the date the employee joined the Group, as well as on the country of incorporation of the respective Group company.

Old-age, early retirement, invalidity as well as surviving dependent's pensions are granted within the framework of all plans. The amount of the pension is geared substantially to the employee's pensionable length of service and basic salary. In addition, for part of the benefit claims, the amount paid depends on the contribution assessment ceiling in the statutory pension scheme.

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. Furthermore, there are two endowments that bear 6.0 % and 7.5 % interest, respectively.

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 4.8 million in the year under report (2009: € 4.8 million).

Provisions for pensions and similar obligations are computed in accordance with actuarial principles using the projected unit credit method. These calculations are performed annually and are currently based on the following parameters:

in %	31.12.2010	31.12.2009
Long-term base rate of interest	5.0	5.5
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	**6.0**	**6.0**

Due to falling interest rates on fixed-rate bonds, the base interest rate was lowered to 5.0 % in the year under report (2009: 5.5 %).

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2011.

The provision for pensions and similar obligations also includes the obligations for semi-retirement, early retirement and anniversary payments.

Development of pension obligations

in €m	2010	2009
Pension obligations as at 01.01.	**190.8**	**180.0**
Service costs	6.8	5.0
Interest expense	10.5	10.2
Pensions paid	–11.4	–10.6
Transfers and others	0.0	0.0
Change in actuarial gains and losses	9.3	6.2
Pension obligations as at 31.12.	**206.0**	**190.8**

Within the scope of the calculation of pension obligations, parameters that are naturally characterised by uncertainties are estimated on a regular basis. A decrease in the long-term base interest rate to 4.75 % would increase the pension obligations to € 213.0 million. On the other hand, if the long-term base interest rate were to increase to 5.25 %, pension obligations would fall to € 199.6 million.

Breakdown of pension obligations

in €m	2010	2009	2008	2007	2006
Non-funded pension obligations	**9.9**	**8.1**	**6.7**	**4.3**	**4.8**
Funded pension obligations					
Present value of pension obligations	196.1	182.7	173.3	172.6	192.4
Fair value of plan assets	203.8	197.4	185.3	201.7	196.6
Balance	**–7.7**	**–14.7**	**–12.0**	**–29.1**	**–4.2**
of which plan shortfall	2.8	4.0	4.5	2.8	5.6
of which plan excess	10.5	18.7	16.5	31.9	9.8
Total pension obligations	**12.8**	**12.1**	**11.2**	**7.1**	**10.4**
of which actuarial gains and losses					
from plan assets	–16.8	–16.6	–24.4	–1.1	0.4
from plan obligations	–26.9	–17.6	–11.4	–16.2	–39.0

The change in the plan excess is shown in the provisions in the transfers column.

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to € 29.8 million after taxes (2009: € 23.3 million). The actuarial losses in the year under report were created largely on the obligations side and are attributable to falling interest rates.

Development of the fair value of plan assets

in €m	2010	2009
Fair value of plan assets as of 1.1.	197.4	185.3
Additions/withdrawals	–5.3	–6.8
Reversals	0.0	0.0
Estimated income from plan assets	11.9	11.1
Change in actuarial gains and losses	–0.2	7.8
Fair value of plan assets as of 13.12.	203.8	197.4

The actual profits from plan assets in the year under report amounted to € 11.7 million (2009: € 18.9 million). A reduction to 5.75 % in the planned return on plan assets would have increased the actuarial result by € 0.5 million. An increase in the planned return to 6.25 % would have reduced the actuarial result by € 0.5 million.

Breakdown of the fair value of plan assets

in €m	2010	2009
Bonds and other fixed-income securities	89.3	114.3
Equities	22.1	25.7
Discount/index certificates	32.7	20.7
Re-insurance claims from life insurance	16.2	15.0
Investment funds	26.9	6.7
Closed-end real estate funds	4.0	4.0
Other	12.6	11.0
Fair value of plan assets as of 31.12.	203.8	197.4

37 Taxation

in €m	31.12.2010	31.12.2009
Current taxation	52.6	61.1
Deferred taxation	14.1	6.6
Total	**66.7**	**67.7**

Current income tax liabilities include provisions for income taxes that are likely to be paid on the basis of the tax accounts of the fully-consolidated Group companies, less previous tax prepayments; our obligations arising from any taxation to be paid as a result of current and future audits are also reported under this item.

Deferred taxation is our future tax burdens or relief, formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 50).

As in the previous year, deferred taxation recoverable is offset against deferred taxation if the prerequisites for offsetting exist.

Deferred taxation recoverable and deferred taxation are attributable to the following items:

in €m	31.12.2010	31.12.2009	Change
	As shown in the balance sheet		
Trading portfolio*	16.6	6.0	10.6
Share-based payments	5.0	7.2	–2.2
Intangible assets	2.2	2.1	0.1
Loss carried forward	0.0	0.0	0.0
Derivatives held in the banking book	–1.9	–0.7	–1.2
Buildings	–0.9	–1.1	0.2
Net loan impairment and other credit risk provisions	–1.4	–2.0	0.6
Pensions	–3.1	–2.4	–0.7
Financial assets	–8.6	–8.3	–0.3
Provisions	–11.1	–10.0	–1.1
Recognised in the income statement	**–3.2**	**–9.2**	**6.0**
Financial Instruments	32.1	26.8	5.3
Foreign Currency Translation	–0.9	–0.1	–0.8
Pensions	–13.9	–10.9	–3.0
With effect on equity	**17.3**	**15.8**	**1.5**
Deferred taxes	**14.1**	**6.6**	**7.5**
of which taxation recoverable	0.0	0.0	0.0
of which taxation	14.1	6.6	7.5

*Balance from measurement differences in all trading activities

38 ▸ Other Liabilities

in €m	31.12.2010	31.12.2009
Liabilities from other taxes	26.2	10.6
Deferred income	9.0	22.6
Accrued interest on		
Subordinated liabilities	6.9	7.1
Participatory capital	4.9	4.9
Other	167.1	50.1
Total	**214.1**	**95.3**

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with clients. Other liabilities include predominately trade payables and liabilities from performance-related remuneration.

39 ▸ Subordinated Capital

in €m	31.12.2010	31.12.2009
Subordinated liabilities (promissory note loans, bonds)	278.4	284.4
Participatory capital	100.0	100.0
Total	**378.4**	**384.4**

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or several occasions by 29 May 2011 up to a total amount of € 250 million. As in the previous year, no use was made of this facility in the last financial year.

In the event of liquidation, insolvency, or proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against HSBC Trinkaus have been met. All subordinated claims have equal priority. No subordinated liabilities can be terminated prematurely by creditors. Profit-participation certificates can be terminated prematurely by HSBC Trinkaus if there is a change in the tax framework, subject to two years' notice of termination.

Subordinated capital of € 363.4 million (2009: € 365.8 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to section 10 (5a) of the German Banking Act (KWG).

For the 2010 financial year, interest payable amounts to € 13.1 million (2009: € 14.1 million) on subordinated liabilities and to € 4.9 million (2009: € 6.1 million) on participatory capital.

Interest and repayment of subordinated liabilities

Interest rates	Nominal amount (€m) 31.12.2010	Nominal amount (€m) 31.12.2009
5 % or lower	100.2	100.2
Over 5 % up to 8 %	153.2	159.2
Fixed rates	253.4	259.4
Variable rates	25.0	25.0
Total	**278.4**	**284.4**

Repayment	Nominal amount (€m) 31.12.2010	Nominal amount (€m) 31.12.2009
Up to 1 year	25.0	6.0
Over 1 year up to 5 years	55.2	80.2
Over 5 years	198.2	198.2
Total	**278.4**	**284.4**

40 ▸ Shareholders' Equity

HSBC Trinkaus & Burkhardt AG successfully concluded a capital increase at the start of July 2010, whereby a total of 2,007,693 new shares were issued at a ratio of 1 for 13 at a price of € 75.00 per share. Subscribed capital accounts for € 5.4 million so that subscribed capital as at 31 December 2010 amounted to € 75.4 million (2009: 70.0 million, divided into 28,107,693 (2009: 26,100,000) no-par value shares.

The Management Board is authorised to increase the share capital by up to € 29.6 million on or before 31 May 2013, with the Supervisory Board's approval, through one or more issues of new bearer shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to € 35.0 million by means of issuing bearer shares. The conditional capital increase may only be carried out to the extent that the holders of convertible and option rights make use of the conversion and option rights under the convertible bonds or bonds cum warrants or profit participations rights to be issued on or before 31 May 2013 (conditional capital).

Valuation reserve for financial instruments

The change in the valuation reserve for financial instruments is as follows:

in €m	2010	2009
Net valuation reserve as at 01.01.	**108.6**	**47.5**
Disposals (gross)	0.7	2.7
Market fluctuations (gross)	20.9	54.3
Impairments (gross)	0.4	23.9
Deferred taxes	–5.3	–19.8
Net valuation reserve as at 31.12.	**125.3**	**108.6**

Shareholders' equity pursuant to German Banking Act (KWG)

A bank's regulatory capital is divided into the three tiers-core capital (Tier I capital), supplementary capital (Tier II capital) and Tier III capital. Core capital comprises primarily share capital plus the capital reserve and retained earnings, less intangible assets (largely software). Supplementary capital consists predominately of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

According to the regulatory requirements, banks are obliged to quantify their counterparty, market and operational risks and to cover them with eligible capital. Market risks result from the interest rate and share price risk on the trading portfolio, as well as foreign exchange risk, commodity risk and other positions exposed to market risk. Counterparty risk may be covered only by core and supplementary capital, while market risk can also be covered by Tier III capital. The minimum mandatory total capital ratio is 8 %. At the same time, at least 4 % of the risk-weighted assets must be backed by core capital (core capital ratio). The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis. The regulatory ratios following confirmation of the balance sheet are as follows:

in €m	2010	2009
Core capital (Tier I)		
Consolidated core capital as disclosed on the balance sheet	1,093	858
Intangible assets	–35	–41
Total core capital	**1,058**	**817**
Supplementary capital (Tier II)		
Subordinated liabilities	261	263
Participatory capital	100	100
Unrealised gains on listed securities	36	47
Consolidation	–15	–15
Total supplementary capital	**382**	**395**
Adjustment items	–43	–52
Regulatory capital excluding Tier III capital	**1,397**	**1,160**
Available Tier III capital	**0**	**0**
Total regulatory capital	**1,397**	**1,160**
Risk-weighted assets	5,862	5,925
Market risk equivalent	1,063	800
Operational risk	1,188	1,125
Risk position	**8,113**	**7,850**
Tier I ratio* in %	**13.0**	**10.4**
Capital ratio in %	**17.2**	**14.8**

* before taking half the adjustment item into account

The Bank's core capital consists exclusively of share capital plus the capital reserve and retained earnings and therefore already meets the future regulatory requirements of hard core capital.

HSBC Trinkaus' far above-average capital resources enable us to continue along the planned growth path within the scope of our successful business model.

The availability of adequate shareholders' equity is fundamental to the management of the Bank, in order to adequately cover the risks inherent in banking. We have deliberately exceeded the regulatory requirements quite considerably in order to be prepared to achieve organic growth and deal with fluctuations in the course of business, whilst creating scope for appropriate strategic acquisitions. All in all, we want to maintain a minimum total capital ratio of 10.5 %. Please refer also to the comments on the Bank's financial position in the Group Management Report.

An analysis of the economic capital requirement complements our management of shareholders' equity, which is focused on the regulatory requirements. Although the introduction of the Basel II Accord considerably improved the risk measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and the available risk cushions in our business, in conjunction with the issue of the Bank's risk-bearing capacity even in extreme stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees and the statistical database features different qualities, so that an aggregation of all risks is not quite without its problems. We continued to refine the calculation of economic capital requirements in 2010.

Ultimately it can be said that the Bank's risk-bearing capacity is unchanged and its capitalisation adequate.

HSBC Trinkaus meets its disclosure obligations pursuant to Pillar 3 through the disclosure made at the Group level by HSBC Holdings plc, London (section 319 para. 3 SolvV). We refer in this respect to HSBC's publications under the heading Investor Relations on its website (www.hsbc.com).

41 ▸ Minority Interests

As in the previous year, minority interests comprise investments in one closed-end real estate fund that is fully consolidated in the consolidated financial statements.

Notes to the Consolidated Income Statement

42 Net Interest Income

in €m	2010	2009
Interest income	**198.5**	**235.1**
From loans and advances to banks	19.6	36.4
Money market transactions	15.7	30.9
Other interest-bearing receivables	3.7	5.4
Reverse repos	0.2	0.1
From loans and advances to customers	75.3	95.9
Money market transactions	14.5	21.6
Other interest-bearing receivables	60.8	74.3
From financial assets	103.6	102.8
Interest income	100.4	99.4
Dividend income	1.8	2.2
Income from subsidiaries	1.4	1.2
Interest expense	**69.8**	**91.8**
From deposits by banks	16.3	17.2
Money market transactions	8.9	12.3
Other interest-bearing deposits	7.4	4.9
From customers accounts	32.5	53.9
Money market transactions	7.4	23.3
Other interest-bearing deposits	25.1	30.6
From securitised liabilities	0.4	0.4
From subordinated capital	17.9	20.2
Other	2.7	0.1
Net interest income	**128.7**	**143.3**

Persistently low interest rates led to a decline in interest income and interest expense in the year under report. Overall, net interest income amounted to € 128.7 million, which is down 10.2 % on the figure of € 143.3 million achieved in 2009. The margins in the deposit-taking business in the year under report were virtually unchanged at a low level, while higher margins than in the previous year could be achieved in the lending business, especially in the first half-year. In contrast, average volumes fell in both the lending as well as in the deposit-taking business, even though loans and advances to customers and customer accounts were up on the previous year.

Furthermore, the financing of a closed-end real estate fund that was recognised in full in interest expense, contributed to the decline. The corresponding financing costs were for the most part still capitalised the year before.

We continued to invest a considerable portion of our liquidity in bonds that are eligible for use in Eurosystem credit operations. Income from financial assets improved slightly over the previous year.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 2.0 million (2009: 4.5 million).

43 Share of Profit in Associates

The share of profit in associates resulted mainly from our interest in SINO AG. HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf was consolidated at equity for the first time as a joint venture (cf. Note 1) in the year under report.

44 ▸ Net Loan Impairment and Other Credit Risk Provisions

in €m	2010	2009
Additions	13.8	27.9
Reversals	7.0	5.5
Direct write-offs	1.4	0.0
Recoveries on loans and advances previously written off	0.5	0.0
Total	**7.7**	**22.4**

At € 7.7 million, net loan impairment in the year under report was down significantly on the previous year's figure of € 22.4 million. This is largely due to the improvement in the economic situation that benefits our export-oriented customers in particular.

Notwithstanding the positive overall economic development, we had to allocate € 13.8 million to individually assessed impairments, while reversing impairments in the amount of € 4.5 million at the same time. This was offset by a net reversal of collectively assessed impairments of € 2.5 million compared with net allocation of € 9.0 million in the previous year, thus reflecting the improvement in the economic environment in our loan book.

Our conservative stance is unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks.

45 ▸ Net Fee Income

in €m	2010	2009
Securities transactions	257.3	236.7
Foreign exchange transactions and derivatives	58.4	51.6
Investment Banking	34.2	3.1
Foreign business	13.6	12.5
Lending	11.5	8.8
Issuing and structuring business	11.0	13.7
Payments	6.6	6.6
Alternative investments*	5.2	5.5
Other fee-based business	6.2	7.7
Total	**404.0**	**346.2**

* The alternative investments division offers alternative investment products to our customers; these include hedge funds, private equity or infrastructure investments that are based on a sustained and broadly diversified basis.

The fee-based business, which accounted for 60.5 % of operating profit (2009: 55.9 %), remains a crucial factor to the Bank's success. With net fee income of € 404.0 million (2009: € 346.2 million), the year under report proved to be a record year in the history of HSBC Trinkaus. Compared with the previous year, we succeeded in significantly increasing net fee income by 16.7 % to € 57.8 million.

This is largely down to two developments in particular: on the one hand, we significantly increased our securities business, which is the pivotal determinant of our success in the fee-based business. We benefited here in particular from higher demand for asset management products, while transaction-led proceeds were hit by lower volumes. On the other hand, we achieved an extraordinarily good result in Investment Banking, by supporting several capital adjustment measures for large exchange-listed companies. We substantially improved the result in our international and lending business thanks to our success in expanding our market share in Corporate Banking. This is also reflected in the initial successes of our accelerated growth strategy that is focused in particular on expanding the Corporate Banking business. As expected, the exceptional result achieved last year in the issuing and structuring business was not replicated in full, since banks and corporates in particular utilised the capital markets to a much lesser extent for raising external capital in the year under report.

Trust activities performed by the Group in its own name, but for the account of third parties, are not recognised in the balance sheet. As in the previous year, net fee income includes practically no income or expense from trust activities.

46 ▸ Net Trading Income

in €m	2010	2009
Equities and equity/index derivatives	68.1	63.9
Bonds and interest rate derivatives	47.9	46.2
Foreign exchange	8.6	7.8
Derivatives held in the banking book	–4.2	5.1
Total	120.4	123.0

At € 120.4 million, net trading income is down slightly on last year's result (2009: € 123.0 million). This development is due largely to the measurement of our derivatives in the banking book. This component that is not attributable to operative business contributed to net trading income with measurement losses in the amount of € 4.2 million, compared with measurement gains of € 5.1 million the year before.

We succeeded in improving the results in all operative trading units compared with the previous year.

Trading in equity and equity/index derivatives, our strongest contributor in the trading division, rose by € 4.2 million to € 68.1 million (2009: € 63.9 million). This development is largely attributable to transactions in retail products. We achieved a particularly favourable result in trading with knockout products and in the business with discount and bonus certificates in the year under report in a still competitive market.

At € 47.9 million, the results achieved on trading bonds and interest rate derivatives are slightly higher than last year's figure of € 46.2 million. The trend in the first three months of falling credit spreads and the associated measurement gains did not continue in the last three months. Rather, spread-widening on the back of the debt levels of some EU countries, amongst other things, eroded the measurement gains. The generally good result generated in money market trading was based on our excellent liquidity situation.

At € 8.6 million, the foreign exchange business is higher than last year's figure of € 7.8 million.

47 ▸ Administrative Expenses

in €m	2010	2009
Staff expenses	259.1	237.9
Wages and salaries	222.6	205.4
Social security costs	26.0	21.9
Expenses for retirement pensions and other employee benefits	10.5	10.6
Other administrative expenses	159.8	137.4
Depreciation of property, plant and equipment and of intangible assets	20.4	25.5
Total	**439.3**	**400.8**

Administrative expenses climbed in the year under report, by € 38.5 million or 9.6 %, to € 439.3 million (2009: € 400.8 million). This increase is attributable to the rise in staff numbers associated with our growth strategy, which creates the basis for securing additional market share and for expanding our revenue base. Furthermore, the performance-related remuneration components rose on the back of the significantly better results vis-à-vis the previous year.

The rise in other administrative expenses is due amongst other things to expenses incurred in improving the workflows. We accepted these expenses knowingly in order to secure the long-term success of our growth strategy. Other administrative expenses include € 31.8 million (2009: €24.3 million) in expenses arising from rental and lease payments. This reflects the higher staff levels as well as the new premises in Luxembourg that were used throughout the year. Rates in the HSBC Group also increased in the year under report, since we availed ourselves increasingly of the services offered by HSBC Group.

Lower depreciation is due to the impairments recognised in the previous year on goodwill and on software components no longer required.

The breakdown of expenses for retirement pensions and other employee benefits is as follows:

in €m	2010	2009
Expenses for defined benefit plans	5.4	4.1
of which current service costs	6.8	5.0
of which interest expense	10.5	10.2
of which estimated income from the plan assets	–11.9	–11.1
Expenses for defined contribution plans	4.8	4.8
Other expenses for retirement provisions	0.3	1.7
Total	**10.5**	**10.6**

48 ▸ Income from Financial Assets

A loss of € 0.6 million from financial assets was reported in the year under report compared with a loss of € 24.0 million the year before, largely owing to the reduction in the necessary impairments. Overall, we recognised impairment in the amount of € 0.4 million (2009: € 23.9 million). This figure reflects the fact that distortions on capital markets have eased as well as the adjustments made to our portfolio.

On balance, the sale of financial assets measured at fair value generated a loss of € 3.0 million (2009: € –1.0 million). The Bank has very limited exposure to the Eurozone periphery states and the price performance of existing holdings is shown in the fair value measurement for financial assets. We also reported profits of € 2.3 million (2009: € –1.7 million) in conjunction with the share-based payments made to our staff in accordance with IFRS 2.

The following table highlights the composition of the realisation gains from financial assets measured at fair value from the performance of previous years and of the year under report:

in €m	2010	2009
Income statement		
Net gain/loss from disposal	–0.7	–2.7
Tax expenses	1.3	0.9
Net realisation gain in the income statement	**0.6**	**–1.8**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	0.7	2.7
of which volatility in the year under report	2.3	–1.7
of which volatility in previous years	–1.6	4.4
Performance of corresponding tax expenses		
Change from disposals (derecognition)	–1.3	–0.9
of which volatility in the year under report	1.5	0.5
of which volatility in previous years	–2.8	–1.4

The following table shows how the impairments or write-ups on financial assets are attributable to the performance of previous years and of the year of impairment/write-back:

in €m	2010	2009
Income statement		
Impairments/write-ups on financial instruments	–0.4	–23.9
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	0.4	23.9
of which volatility in the year under report	–0.9	17.0
of which volatility in previous years	1.3	6.9
Performance of corresponding tax expenses		
Changes from impairments/write-ups	–0.1	–4.1
of which volatility in the year under report	0.3	–2.9
of which volatility in previous years	–0.4	–1.2

49 ▸ Net Other Income

in €m	2010	2009
Other operating income	26.6	20.0
Other operating expenses	17.0	8.4
Other operating income	**9.6**	**11.6**
Other income	0.7	2.4
Other expenses	6.2	16.2
Other net income	**–5.5**	**–13.8**
Net other income	**4.1**	**–2.2**

Other operating income essentially includes € 11.5 million (2009: € 3.8 million) in rental income and € 8.2 million (2009: € 4.6 million) from the reversal of other provisions. Other operating expenses include for the most part additions of € 9.9 million (2009: € 4.8 million) to provisions and expenses of € 2.6 million incurred in renting (2009: € 0.5 million).

Other operating income/expenses also takes into account the hedge result that amounted to € 0.2 million (2009: € –0.1 million) in the year under report (cf. Notes 6 and 59).

Other income was mainly from a revaluation of € 0.5 million (2009: impairments of € 0.3 million) on land and property. This revaluation is recognised on the basis of the annual valuation carried out by an external appraiser on the respective reporting date and reflects the change in the economic valuation of a property. For the purposes of segment reporting, impairments and revaluations on land and property are allocated to the "Central Divisions/Consolidation" business segment (cf. Note 54).

Other expenses of € 6.2 million (2009: € 16.2 million) include for the most part provisions of € 6.0 million (2009: € 15.6 million) for the business with closed-end real estate funds.

50 ▸ Tax Expenses

in €m	2010	2009
Current taxes	64.6	67.0
of which off-period	–0.5	0.2
Deferred taxes from change in limited valuation differences	6.8	–12.5
Deferred taxes from changes to the tax rates	–0.8	0.0
Total	70.6	54.5

As in the previous year, the effective corporation tax in Germany is 15.8 %. Taking trade income tax into account, the combined tax rate is 31.4 % (2009: approximately 32.0 %). The reduction in the combined tax rate from 32.0 % to 31.4 % is due to the reduction in the trade tax rates of assessment of individual local authorities in 2010. The rate also forms the bases for calculating deferred taxes. The slight increase in tax rates in Luxembourg had no material impact.

The following table shows the relationship between tax expenses derived from pre-tax profit and the actual tax expenses reported.

in €m	2010	2009
Pre-tax profit	210.0	163.7
Tax rate (%)	31.4	32.0
Tax expenses derived from pre-tax profit	65.9	52.4
Tax rate differential on income proportions subject to taxation outside of Germany	–0.5	–1.6
Effect from unused losses carried forward	0.0	0.5
Taxes for previous years	–0.5	0.2
Non-deductible expenses from share-based payments	1.4	1.6
Corporation tax modification	2.0	0.0
Trade tax modification	2.0	0.9
Miscellaneous	0.3	0.5
Reported taxation	70.6	54.5

51 Calculation of Operating Profit

in €m	2010	2009	Change	
			in €m	in %
Interest income	198.5	235.1	–36.6	–15.6
Interest expense	69.8	91.8	–22.0	–24.0
Net interest income	128.7	143.3	–14.6	–10.2
Net loan impairment and other credit risk provisions	7.7	22.4	–14.7	–65.6
Net interest income after net loan impairment and other credit risk provisions	121.0	120.9	0.1	0.1
Share of profit in associates	0.4	0.6	–0.2	–33.3
Fee income	683.9	575.1	108.8	18.9
Fee expenses	279.9	228.9	51.0	22.3
Net fee income	404.0	346.2	57.8	16.7
Operating trading income	124.6	117.9	6.7	5.7
Staff expenses	259.1	237.9	21.2	8.9
Other administrative expenses	180.2	162.9	17.3	10.6
Administrative expenses	439.3	400.8	38.5	9.6
Other operating income	9.6	11.6	–2.0	–17.2
Operating profit	**220.3**	**196.4**	**23.9**	**12.2**
Income from financial assets	–0.6	–24.0	23.4	–97.5
Income from derivatives in the bank book	–4.2	5.1	–9.3	> 100
Other net income	–5.5	–13.8	8.3	–60.1
Pre-tax profit	**210.0**	**163.7**	**46.3**	**28.3**
Tax expenses	70.6	54.5	16.1	29.5
Net profit for the year	**139.4**	**109.2**	**30.2**	**27.7**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (cf. Note 49). Operating trading income comprises net trading income from our trading desks but does not include results from derivatives held in the banking book. A breakdown of operating profit by business segment is shown in Segment Reporting (cf. Note 54).

52 Income Statement by Measurement Category

The following overview includes on the one hand net profit or net loss for every IAS 39 measurement category of financial assets and financial liabilities. Net profits/losses are a net earnings indicator comprising changes in market value recognised in the income statement, disposals of financial instruments, impairments and currency translation effects if necessary. On the other hand, interest income/expenses as well as fee income/expenses are included in every measurement category.

Measurement category 31.12.2010 in €m	Loans and Receivales	Other financial instru-ments	Held-for-trading	Derivatives in hedging relation-ships	Availa-ble-for-sale	Other financial commit-ments	Other	Total
Net interest income								
Interest income	92.3	2.6			103.6			198.5
Interest expense						−67.1	−2.7	−69.8
Net fee income								
Fee income	11.7		5.9				666.3	683.9
Fee expenses	−0.2		−1.8				−277.9	−279.9
Net trading income			120.4					120.4
Income from financial as-sets					−0.2			−0.2
Net other income				−1.7	1.9		3.9	4.1
Impairments								
Net loan impairment and other credit risk provi-sions	−8.8						1.1	−7.7
Income from financial as-sets					−0.4			−0.4
Total	**95.0**	**2.6**	**124.5**	**−1.7**	**104.9**	**−67.1**	**390.7**	**648.9**

Measurement category 31.12.2009 in €m	Loans and Receiva-bles	Other fi-nancial instru-ments	Held-for-trading	Derivatives in hedging relation-ships	Availa-ble-for-sale	Other financial commit-ments	Other	Total
Net interest income								
Interest income	128.9	3.4			102.8			235.1
Interest expense						−91.8		−91.8
Net fee income								
Fee income	9.1						566.0	575.1
Fee expenses	−0.3						−228.6	−228.9
Net trading income			123.0					123.0
Income from financial assets					15.5			15.5
Net other income				−0.7	0.6		−2.1	−2.2
Impairments								
Net loan impairment and other credit risk provisions	−18.6						−3.8	−22.4
Income from financial assets					−39.5			−39.5
Total	**119.1**	**3.4**	**123.0**	**−0.7**	**79.4**	**−91.8**	**331.5**	**563.9**

Other Notes

53 Notes to the Cash Flow Statement

IAS 7 (Cash Flow Statements) requires all companies to draw up a cash flow statement. However, the value of the information it provides, as part of the annual accounts of financial institutions, is relatively limited. It shows movements in cash and cash equivalents arising from additions and disposals in the Group over the course of the financial year.

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fee income, the at-equity result, operating trading income and the balance of other operating income and expenses, minus administrative expenses and net loan impairment and other credit risk provisions.

The summary item "Other adjustments (net)" in the cash flow statement essentially comprises net changes to deferred taxes, the change in taxation recoverable as well as tax expenses paid, interest and dividends received minus interest paid.

Cash and cash equivalents
As in the previous year, the cash and cash equivalents of € 336.0 million (2009: € 177.0 million) correspond to the cash reserve balance sheet item, which comprise cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

Cash flow from operating activities
Consolidated cash flows from operating activities for the Group are presented according to the indirect method, which derives them from net profit for the year.

Consolidated net profit for the year of € 139.4 million (2009: € 109.2 million) is the input figure for the cash flow statement. Gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to € 43.6 million (2009: € 101.7 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash flow from investing activities
Spending on the acquisition of property, plant and equipment totalled € 15.8 million (2009: € 18.6 million) in the 2010 financial year. The sale of property, plant and equipment realised € 1.4 million (2009: € 4.5 million) for the Group. In the 2010 financial year, the sale and purchase of financial investments realised a net outgoing payment of € 0.2 million (2009: € 0.9 million receipt of payment).

Cash flow from financing activities
Cash flow from financing activities includes the dividend of € 65.3 million for the 2010 financial year (2009: € 65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in a payment of € 6.0 million (2009: € 74.3 million). The cash inflow from the capital increase conducted in the summer of 2010 amounted to € 150.6 million.

54 ▸ Customer Groups

The segment reporting prepared by HSBC Trinkaus in accordance with IFRS 8 provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions and should help them gain a more differentiated picture of the economic performance of the Group.

The segment reporting of the HSBC Trinkaus Group is based on contribution to profits as a key component of the Management Information System (MIS). The MIS serves as one of the Bank's central management and controlling tools, reflecting the organisational structure of the HSBC Trinkaus Group on a divisional basis.

Hence, the segment reporting covers the following business areas, which are essentially structured to meet the needs of our clients:

Private Banking
The Private Banking business division offers the clients of HSBC Trinkaus extensive advisory and management services for larger private portfolios. In addition to general portfolio management and advisory services, this involves special services such as advice on asset structuring, execution of wills, real estate advisory services as well as Family Office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

Corporate Banking
The Corporate Banking division of HSBC Trinkaus offers large and medium-sized companies a comprehensive spectrum of professional services tailored to meet individual needs. These include basic services for various lending and deposit products, as well as the comprehensive domestic and foreign payment transactions service (PCM = payments and cash management). In addition, we offer sophisticated specialised services such as interest rate and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients
In the Institutional Clients division HSBC Trinkaus offers its institutional clients, namely fund-gathering institutions with major investment needs such as insurance companies, pension and investment funds and also banks, the full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients, e.g. to guarantee the value of large investment portfolios.

Global Markets
The Global Markets division deals with the transactions in securities, financial instruments, foreign exchange and derivatives that HSBC Trinkaus undertakes on its own account and in its own name. Through its trading activities, therefore, the Bank itself participates in the market, acting as a market-maker whilst seeking to generate additional profit by pursuing clearly defined trading goals.

Central Divisions
In addition to overhead costs that cannot be unambiguously allocated to specific business divisions, Central Divisions / Consolidation includes profits from selected strategic asset and liability items that cannot be directly attributed to one particular division, as well as the results of asset liability management. As in the previous year, this segment includes in addition the earnings contributions from securities processing for financial services providers.

Segment income is broken down into net interest income, net fee income and net trading income. The difference between the standardised risk-related costs in the operating segments (credit rating-related add-ons to drawings and limits not utilised) and the risk costs reported in the income statement is reported under Consolidation / Reconciliation. Wherever possible, administrative expenses are charged to the segments if possible according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

Segment reporting by business division for 2010 and 2009 is as follows:

in €m		Private Banking	Corporate Banking	Institutional clients	Global Markets	Central Divisions	Economic Group result	Consolidation / Reconciliation	Total
Net interest income	2010	11.0	50.7	2.5	3.8	60.7	128.7	0.0	128.7
	2009	14.4	44.8	1.9	10.6	71.6	143.3	0.0	143.3
Net loan impairment and other credit risk provisions	2010	1.1	10.6	1.5	0.1	0.1	13.4	5.7	7.7
	2009	1.8	8.7	1.3	0.2	0.7	12.7	9.7	22.4
Net interest income after net loan impairment and other credit risk provisions	2010	9.9	40.1	1.0	3.7	60.6	115.3	5.7	121.0
	2009	12.6	36.1	0.6	10.4	70.9	130.6	9.7	120.9
Share of profit in associates	2010	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.4
	2009	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
Net fee income	2010	94.4	107.4	173.8	5.3	23.1	404.0	0.0	404.0
	2009	83.1	92.4	146.1	2.5	22.1	346.2	0.0	346.2
Operating trading income	2010	0.0	0.3	5.5	93.5	25.9	124.6	0.0	124.6
	2009	0.0	0.2	11.0	105.4	1.7	117.9	0.0	117.9
Income after loan impairment and other credit risk provisions	2010	104.3	147.2	180.3	102.5	110.0	644.3	5.7	650.1
	2009	95.7	128.3	157.7	118.3	95.3	595.3	9.7	585.6
Administrative expenses	2010	74.6	85.6	108.0	52.7	118.4	439.3	0.0	439.3
	2009	64.4	74.3	90.6	52.6	118.9	400.8	0.0	400.8
Of which depreciation and amortisation	2010	1.7	1.2	0.9	0.5	16.1	20.4	0.0	20.4
	2009	1.5	1.1	0.6	0.6	21.7	25.5	0.0	25.5
Other operating income	2010	0.0	0.0	0.0	0.0	9.6	9.6	0.0	9.6
	2009	2.2	0.0	0.0	0.0	13.8	11.6	0.0	11.6
Operating profit	**2010**	**29.7**	**61.6**	**72.3**	**49.8**	**1.2**	**214.6**	**5.7**	**220.3**
	2009	**29.1**	**54.0**	**67.1**	**65.7**	**9.8**	**206.1**	**9.7**	**196.4**
Income from financial assets	2010	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
	2009	0.0	0.0	0.0	0.0	24.0	24.0	0.0	24.0
Income from derivatives in the bank book	2010	0.0	0.0	0.0	0.0	4.2	4.2	0.0	4.2
	2009	0.0	0.0	0.0	0.0	5.1	5.1	0.0	5.1
Other net income	2010	0.0	0.0	0.0	0.0	5.5	5.5	0.0	5.5
	2009	0.0	0.0	0.0	0.0	13.8	13.8	0.0	13.8
Pre-tax profit	**2010**	**29.7**	**61.6**	**72.3**	**49.8**	**9.1**	**204.3**	**5.7**	**210.0**
	2009	**29.1**	**54.0**	**67.1**	**65.7**	**42.5**	**173.4**	**9.7**	**163.7**
Taxation	2010	9.2	19.3	22.8	15.5	3.8	70.6	0.0	70.6
	2009	9.1	17.3	21.5	21.0	14.4	54.5	0.0	54.5
Net profit for the year	**2010**	**20.5**	**42.3**	**49.5**	**34.3**	**12.9**	**133.7**	**5.7**	**139.4**
	2009	**20.0**	**36.7**	**45.6**	**44.7**	**28.1**	**118.9**	**9.7**	**109.2**
Change versus previous year in %		**2.5**	**15.3**	**8.6**	**23.3**	**54.1**	**12.4**	**>100.0**	**27.7**

The higher contributions made by all client segments to the Bank's operating profit in the 2010 financial year once again confirmed the success of the Bank's balanced business model. The result reflects the strengths of HSBC Trinkaus' client business, against the background of the continuing uncertainties on the financial markets that resulted from the high level of debt of individual Eurozone member states. However, owing to the low interest rate environment in the Eurozone, Trading was the only division that was unable to repeat the extraordinary high result of the previous year. The measurement and realisation results of the Bank's financial assets as well as the net loan impairment provision reported in the Central Divisions / Consolidations developed more favourably compared with the previous year as the crisis affecting financial markets eased.

The Corporate Banking segment was particularly successful and recorded the highest percentage increase in results among all of the Bank's operating segments. The market-driven decline in revenue in the commission-based fixed income business was more than compensated for by high net fee income in international business and by participating in capital increases in a lead role. Higher revenues in Asset Management and an increase in interest income in the lending business due to margin trends contributed to the good result achieved in Corporate Banking.

The Institutional Clients segment generated the highest contribution to results in the Bank. High revenues in Investment Banking and the equity business from the placement of capital increases were particularly instrumental in driving up results once again. They also offset the slight decline in net fee income and net trading income in the fixed income business. The sale of structured investments benefited most from the growing diversity of products brought about by the intensive cooperation with HSBC Group.

Private Banking benefited from the positive market trend on the stock exchanges. Following a difficult year in 2009, higher revenues from the asset management and securities business contributed to the increase in results for the bank as a whole.

On the other hand, Global Markets failed to repeat the exceptional result of the previous year, which was largely attributable to the very high revenues generated by Treasury due to the favourable environment on the money markets. The improvement in results in the largely customer-driven equity and derivatives trading could not offset the lower treasury results generated in money market and foreign exchange trading.

The rise in administrative expenses in the Bank's four market segments is due to the expansion drive embarked on to enhance the Bank's competitive standing, which also explains the 7 % increase in staff numbers to 2,440 in the Group as a whole. Regulatory costs are rising continuously in the Central Divisions / Consolidation segment on the one hand, while higher costs were allocated to the other segments on the other.

		Private Banking	Corporate Banking	Institutional Clients	Global Markets	Central Divisions	Total	Adjustments	Values as at balance sheet date
Cost/income ratio in %	2010	70.8	54.2	59.4	51.4	0.0	66.9	0.0	66.9
	2009	67.6	54.2	57.0	44.4	0.0	68.3	0.0	68.3
Assets* in €m	2010	535.0	1,660.0	2,268.0	5,710.7	9,657.6	19,831.3	1,247.3	18,584.0
	2009	613.0	2,018.0	2,083.5	8,059.3	7,988.7	20,762.5	2,033,9	18,728.6
Liabilities* in €m	2010	3,259.0	3,773.0	1,515.1	2,920.6	5,467.0	16,934.7	396.2	16,538.5
	2009	3,410.0	4,256.0	1,657.3	2,949.4	7,394.4	19,667.1	2,700.7	16,966.4
Items for mandatory inclusion* in €m	2010	518.5	2,821.8	922.7	785.9	2,782.5	7,831.4	281.6	8,113.0
	2009	501.4	2,850.8	740.5	693.2	3,344.3	8,130.2	280.2	7,850.0
Attributable shareholders' equity* in €m	2010	146.9	377.2	187.3	173.6	187.0	1,072.0	217.7	1,289.7
	2009	140.1	328.1	159.2	155.5	167.1	950.0	112.5	1,062.5
Employees	2010	239	217	246	99	1,639	2,440	0	2,440
	2009	229	205	223	91	1,532	2,280	0	2,280
Return on equity before taxes (%)	2010	20.2	16.3	38.6	28.7	0.0	19.6	0.0	0.0
	2009	20.8	16.5	42.1	42.3	0.0	17.1	0.0	0.0

* Annual average

Assets, liabilities and items for mandatory inclusion are based on the average values of the Bank's management information system. The differences with respect to the values on the reporting date as at year-end are shown in the adjustments column.

The cost/income ratio is a measure of the segments' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment and other credit risk provisions. This ratio has increased slightly year-on-year in the client segments, due to the necessary start-up costs incurred within the scope of the growth strategy the Bank has embarked on. Although costs remained constant, the cost/income ratio deteriorated in Global Markets, due to the significant decline in revenues owing to the special situation in Treasury the year before. The cost/income ratio within the Group improved to 66.9 %. The capital resources of the business segments are made up of a base amount, which is identical for each segment, plus a variable portion calculated according to the amount of mandatory risk items in a given segment. The assignment of assets, liabilities, risk assets and balance sheet equity follows the assignment of customers to each segment according to the management information system.

The greatest increase in items for mandatory inclusion was reported in the Institutional Clients and Global Markets segments, while risk assets in Corporate Banking and Private Clients remained virtually constant. The higher allocation of capital committed to all segments is largely due to the € 150 million capital increase that was conducted in summer 2010, to pave the way for permanent growth opportunities within the scope of the Bank's business model

The results of the various companies' activities, which are classified geographically, are illustrated below. Segment allocation is determined by the registered office of the respective Group company:

in €m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2010	193.9	15.0	1.1	210.0
	2009	135.4	26.4	1.9	163.7

Long-term segment assets amounted to € 280.0 million (2009: € 256.2 million) during the year under report, with Germany accounting for € 271.7 million (2009: € 247.8 million) thereof and the Luxembourg region for € 8.3 million (2009: € 8.4 million)

55 Measurement Classes

The following table provides an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.10 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receiva-bles	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		336.1			336.1
Loans and advances to banks*	1,402.9				1,402.9
Loans and advances to customers *	3,040.5				3,040.5
Trading assets			10,130.6		10,130.6
Financial assets		51.7		3,254.2	3,305.9
Other financial instruments	14.1	4.3			18.4
Total financial instruments	**4,457.5**	**392.1**	**10,130.6**	**3,254.2**	**18,234.4**
Other assets not included under IAS 39					349.6
Total assets					**18,584.0**

Liabilities as at 31.12.10 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held for trading	
Deposits by banks	1,180.4		1,180.4
Customer accounts**	10,148.0		10,148.0
Certificated liabilities	10.0		10.0
Trading liabilities		5,200.1	5,200.1
Subordinated capital	378.4		378.4
Other financial instruments	102.2		102.2
Total financial instruments	**11,819.0**	**5,200.1**	**17,019.1**
Other liabilities not included under IAS 39			275.1
Shareholders' equity			1,289.7
Minority interests			0.1
Total assets	**378.4**		**18,584.0**

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customers' deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.2009 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held for trading	Available-for-sale	
Cash reserve		177.0			177.0
Loans and advances to banks*	2,429.4				2,429.4
Loans and advances to customers*	2,644.6				2,644.6
Trading assets			10,005.7		10,005.7
Financial assets		53.1		3,073.0	3,126.1
Other financial instruments	14.9	2.3			17.2
Total financial instruments	**5,088.9**	**232.4**	**10,005.7**	**3,073.0**	**18,400.0**
Other assets not included under IAS 39					328.6
Total assets					**18,728.6**

Liabilities as at 31.12.2009 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held for trading	
Deposits by banks	2,697.6		2,697.6
Customer accounts**	9,062.1		9,062.1
Certificated liabilities	10.0		10.0
Trading liabilities		5,196.7	5,196.7
Subordinated capital	384.4		384.4
Other financial instruments	55.0		55.0
Total financial instruments	**12,209.1**	**5,196.7**	**17,405.8**
Other liabilities not included under IAS 39			260.2
Shareholders' equity			1,062.5
Minority interests			0.1
Total assets			**18,728.6**

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customers' deposits are used in part internally to refinance our trading divisions.

56 ▸ Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties. Details of the valuation can be found in Note 5.

Assets and liabilities held-for-trading as well as financial assets are reported in the balance sheet at fair value, i.e. book value equates to fair value. Cash reserves, interbank funds, book-entry claims on customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant. For other items in the balance sheet, the following differences are noted between the fair value and reported book values:

in €m	31.12.2010		31.12.2009	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	18.4	18.4	17.2	17.2

in €m	31.12.2010		31.12.2009	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	1,180.4	1,180.4	2,697.6	2,697.6
Customer accounts (from the measurement of long-term promissory note loans borrowed)	10,148.0	10,170.5	9,062.1	9,094.8
Certificated liabilities	10.0	9.5	10.0	9.7
Subordinated capital	378.4	401.1	384.4	399.4
Other financial instruments	102.2	102.2	55.0	55.0

The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships and unlisted public limited companies for which there is no active market. Measurement is therefore at cost.

in €m	31.12.2010	31.12.2009
	Book value	Book value
Partnerships	15.9	17.0
Holdings in unlisted public limited companies	35.8	36.1
Total	**51.7**	**53.1**

During the year under report, partnerships for which there is no active market were disposed of in the amount of € 0.1 million (2009: € 0.0 million); the Bank has no intentions to dispose of further partnerships at this point in time.

The following overview shows which method was used to calculate the fair value of the items measured at fair value:

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2010 in €m		observed parameters	unob-servable parameters		
Trading assets	1,326.5	8,786.3	17.8	0.0	10,130.6
of which derivatives in hedging relationships	0.0	0.8	0.0	0.0	0.8
Financial assets	922.4	2,326.0	5.8	51.7	3,305.9
Trading liabilities	104.9	5,031.5	63.7	0.0	5,200.1
of which derivatives in hedging relationships	0.0	5.7	0.0	0.0	5.7

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2009 in €m		observed parameters	unob-servable parameters		
Trading assets	1,551.1	8,416.7	37.9	0.0	10,005.7
of which derivatives in hedging relationships	0.0	0.2	0.0	0.0	0.2
Financial assets	627.1	2,438.5	7.4	53.1	3,126.1
Trading liabilities	614.3	4,499.7	82.8	0.0	5,196.7
of which derivatives in hedging relationships	0.0	3.2	0.0	0.0	3.2

For some financial instruments, quoted prices are used as fair values (so-called level 1). The fair values of the financial instruments are measured using the Bank's own internal measurement models. These models allow all parameters included on the market to be observed (so-called level 2).

Equity instruments comprise for the most part plain vanilla options or single barrier options. The former are measured by means of a Black-Scholes approach (binomial process), while the latter are evaluated using an approximate valuation approach. The following observable market parameters underlying spot, underlying volatility, underlying dividends and interest rate are included in these models.

Level 2 transactions in interest rate instruments are generally valued using the discounted cash flow method or the Black-Scholes method. The parameters required here (swap rates and volatility) can also be observed on the market.

No financial Instruments were transferred from level 1 to level 2 in the year under report (2009: € 512.3 million). Similarly, no financial instruments were transferred from level 2 to level 1 (2009: € 61.1 million).

Additionally, the fair value of some financial instruments was calculated using valuation models, where at least one of the parameters used cannot be observed on the market (so-called level 3). These instruments include, amongst other things, equity certificates on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured in an analytical Black-Scholes approach. As a rule, the correlation between the individual underlyings or between the underlying and the foreign currency represents the parameters that are not observed on the market.

In the year under report, the volume of level 3 financial instruments amounted to € 94.9 million (2009: € 128.1 million). The portfolio of level 3 financial instruments developed as follows in the year under report:

in €m	Trading assets	Financial assets	Trading liabilities	Total:
01.01.2010	**37.9**	**7.4**	**82.8**	**128.1**
Changes in the carrying amount				
recognised in the income statement	0.9	1.6	2.8	5.3
recognised directly in equity	0.0	0.0	0.0	0.0
Purchases	4.9	0.0	0.0	4.9
Issuance	0.0	0.0	42.6	42.6
Sales	0.0	0.0	0.0	0.0
Maturities	17.0	0.0	58.4	75.4
Transfers to level 3	0.0	0.0	0.0	0.0
Transfers out of level 3	0.0	0.0	0.0	0.0
31.12.2010	**24.9**	**5.8**	**64.2**	**94.9**

As in the previous year, no level 3 financial instruments were transferred to other fair value levels in the year under report. No financial instruments were transferred into level 3 either (2009: € 100.4 million).

A 25 % change in the unobservable parameters would lead to a € 1.5 million (2009: € 0.6 million) change in the market value.

57 Day-1 Profit or Loss

Financial assets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

The day-1 profit or loss developed as follows during the year under report:

in €m	2010	2009
As at 01.01.	**1.8**	**3.3**
New business	0.7	0.4
Day-1 profit or loss recognised in the income statement	–0.2	–1.9
of which positions closed out	–0.1	–0.5
of which matured transactions	–0.1	–1.4
of which observable market parameters	0.0	0.0
As at 31.12.	**2.3**	**1.8**

58 ▸ Holdings in Foreign Currency

As at 31 December 2010, assets denominated in a foreign currency were valued at € 2,108.4 million (2009: 1,097.2 million) and the corresponding liabilities at € 3,114.2 million (2009: € 1,797.1 million). As in the previous year, the bulk of these assets and liabilities were in US dollars.

59 ▸ Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with section 36 of the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e.V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of their credit rating and any netting agreements. As there is no counterparty risk on exchange-traded derivatives, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2010	Total 2009
OTC products	FRAs	0	0	0	0	1,300
	Interest rate swaps	3,628	12,745	8,481	24,854	27,723
	Interest rate options	565	3,938	1,409	5,912	7,253
	Forward transactions	292	100	712	1,104	1,191
Exchange-listed products	Interest rate futures	2,020	1,831	0	3,851	586
	Interest rate options	0	0	0	0	37
Interest rate transactions		6,505	18,614	10,602	35,721	38,090
OTC products	Forward exchange forwards	25,623	1,580	4	27,207	23,928
	Cross currency swaps	227	144	65	436	655
	Foreign exchange options	2,736	56	0	2,792	2,754
Foreign exchange-based transactions*		28,586	1,780	69	30,435	27,337
OTC products	Forward transactions	1	1	0	2	282
	Equity/index options	94	138	0	232	278
	Equity swaps	119	44	30	193	116
Exchange-listed products	Equity/index futures	816	30	0	846	502
	Equity/index options	3,424	1,699	312	5,435	4,841
Equity/index-based transactions		4,454	1,912	342	6,708	6,019
Total financial derivatives		39,545	22,306	11,013	72,864	71,446

* including gold transactions

Breakdown of the derivatives business by nominal amount

in € m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2010	Total 2009	Total 2010	Total 2009
OTC products	FRAs	0	0	0	0	0	0	0
	Interest rate swaps	46	330	500	876	861	1,146	1,111
	Interest rate options	–19	44	34	59	74	75	103
	Forward transactions	19	0	0	19	7	2	8
Interest rate transactions		**46**	**374**	**534**	**954**	**942**	**1,223**	**1,223**
OTC products	Forward exchange forwards	368	33	0	401	340	372	325
	Cross currency swaps	6	11	0	17	15	13	10
	Foreign exchange options	30	2	0	32	43	34	42
Foreign exchange-based transactions*		**404**	**46**	**0**	**450**	**398**	**419**	**376**
OTC products	Forward transactions	0	0	0	0	137	0	204
	Equity/index options	9	21	1	31	61	83	47
	Equity swaps	1	1	2	4	0	20	15
Equity/index-based transactions		**10**	**22**	**3**	**35**	**198**	**103**	**266**
Total financial derivatives		**460**	**442**	**537**	**1,439**	**1,538**	**1,745**	**1,865**

* including gold transactions

Hedging instruments

HSBC Trinkaus uses specific derivatives (usually interest rate swaps) to hedge against market interest rate risk on financial assets (so-called fair value hedges; cf. Note 6). This hedging relationship resulted in positive market values of € 0.9 million as at 31 December 2010 (2009: € 0.2 million) as well as negative market values of € 5.8 million (2009: € 3.2 million).

The hedge result is specified in more detail in the following overview:

Profit and loss in €m	2010	2009
From hedging instruments	–1.7	–0.7
From underlying transactions	1.9	0.6

60 ▸ Contingent Liabilities and Other Obligations

in €m	31.12.2010	31.12.2009
Contingent liabilities on guarantees and indemnity agreements	1,305.4	1,569.2
Irrevocable loan commitments	3,751.9	3,290.2
Total	5,057.3	4,859.4

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of € 3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of € 0.5 million (2009: € 1.0 million) is still outstanding. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are also contingently liable pro rata for fulfilment of the additional funding obligations of other partners belonging to the Association of German Banks (Bundesverband deutscher Banken e. V.).

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 78.5 million (2009: € 90.3 million) as at the balance sheet date.

in €m	31.12.2010	31.12.2009
Up to 1 year	26.3	27.7
Over 1 year up to 5 years	25.1	35.7
Over 5 years	27.1	26.9
Total commitments arising from leasing and rental contracts	78.5	90.3

The Bank outsourced to external third parties the operation of the information centre for card payments and the establishment and operation of an account information centre in accordance with section 24 c of the German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

61 Assets Pledged as Collateral

Securities with a nominal value of € 898.9 million (2009: € 999.8 million) were deposited as collateral for transactions on Eurex and for securities lending operations (cf. Note 31).

Debt instruments with a nominal value of € 3,873.7 million (2009: 4,879.1 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 Trust Activities

Trust activities may not be shown on a bank's balance sheet. As an indication of the extent of our potential liability, the following table shows the value of off-balance-sheet trust activities:

in €m	31.12.2010	31.12.2009
Trust assets	**373.7**	**361.1**
Loans and advances to banks	153.2	158.5
Loans and advances to customers	68.4	51.8
Investments	152.1	150.8
Trust liabilities	**373.7**	**361.1**
Deposits by banks	2.2	3.4
Customer accounts	371.5	357.7

63 ▸ Participating Interests

HSBC Trinkaus & Burkhardt AG's participating interests can be presented as follows:

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2010 in € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	0 *
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	108,542	10,640
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,715	908
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	24,000	0 *
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	4,642	843
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,981	7
HSBC Transaction Services GmbH***	Düsseldorf	100.0	13,532	105
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	0 *
HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments OHG****	Düsseldorf	10.0	276,217	1,167
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	0 *
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	0 *
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	720	430
HSBC Global Asset Management (Switzerland) AG****	Zurich	50.0	848	101
Companies with a special mission				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	0 *
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	3,010	–5,812
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	4
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	36	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	65	6
Trinkaus Canada 1 GP Ltd.*****	Toronto	100.0	–13	–14
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	21	2
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	39	11
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,671	1,644
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	0*

Company	Registered office	Percentage share of issued capital	Equity held in the company in € 000	Net income for 2010 in € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	2,762	–634
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,809	309
Other companies				
HSBC Trinkaus Consult GmbH*****	Düsseldorf	100.0	5,685	514
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	28	2
SINO AG ******	Düsseldorf	26.6	6,920	2,709

* Profit-transfer agreement
** Equities issued by private companies
*** Renamed, formerly International Transaction Services GmbH
**** Consolidated at equity
***** Figures as at 31.12.2009
******Figures per 31.12.2009; consolidated at equity

64 ▸ Releasing Subsidiaries from the Disclosure Requirements of the German Commercial Code (HGB)

The following subsidiaries intend to make use of the exemption afforded by section 264 (3) of the German Commercial Code (HGB) and will not publish their financial statements for the year 2008:

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
- HSBC Transaction Services GmbH, Düsseldorf
- DPT Deutscher Pension Trust GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- HSBC Trinkaus Private Wealth GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf

65 ▸ Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf – are in a position to fulfill their contractual obligations.

Moreover, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general partners or managing partners of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies and Trinkaus private equity companies, against all third-party claims made against them in their legal capacity or activities as general partners in the respective companies, provided they are natural persons.

66 ▸ Staff

Annual average	2010	2009
Staff employed abroad	218	201
Staff employed in Germany	2,120	2,052
Total (including trainees)	**2,338**	**2,253**
of which:		
female members of staff	1,025	1,010
male members of staff	1,313	1,243

67 ▸ Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG AG Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expense:

in €m	2010	2009
Audits	0.7	0.7
Other audit or valuation services	0.4	0.3
Tax advisory services	0.0	0.2
Other services	0.2	0.1
Total	**1.3**	**1.3**

68 ▸ Business Relationships with Companies and Persons Defined as Related Parties

In accordance with our "best of both worlds" strategy, we foster intensive business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall, the consolidated income statement includes € 120.2 million (2009: 120.5 million) in income and € 21.3 million (2009: € 26.4 million) in expenses for transactions with HSBC Holdings plc, London and its affiliated companies. The decline in income and expenditure is attributable in particular to lower interest income and expenses. In the 2010 financial year, interest income from other HSBC companies amounted to € 13.6 million (2009: 53.7 million), while interest expense stood at € 8.3 million (2009: € 15.1 million).

Loans and advances to banks and customers include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans and advances to banks	445.7	939.3	0.0	0.0
Loans and advances to customers	0.3	0.2	26.3	35.4
Total	**446.0**	**939.5**	**26.3**	**35.4**

Liabilities to banks and customers include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Deposits by banks	643.5	1,783.4	0.0	0.0
Customer accounts	13.8	10.3	8.5	10.0
Total	**657.3**	**1,793.7**	**8.5**	**10.0**

Trading assets / liabilities include the following transactions concluded with affiliated enterprises:

	Securities		Derivatives	
in €m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Trading assets	171.0	435.2	734.7	681.5
Trading liabilities	0.0	0.0	999.8	962.6

Compensation of the Executive Bodies
The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Structure and Management). The following overview shows the remuneration components of the members of the Management Board and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 June 2007, information is disclosed pursuant to section 314 sentence 1 No. 6 (a) sentences 5 to 9 of the German Commercial Code (HGB).

At € 2,189.8 thousand, the fixed remuneration of all members of the Management Board was virtually unchanged compared with 2009 (€ 2,157.3 thousand). The variable share of the remuneration is € 5,844 thousand (2009: € 5,715 thousand); it will be disbursed in cash in three cases and in equal proportions of cash and HSBC Holdings plc shares in one case. In addition, the Management Board will receive share options as a so-called long-term incentive, which is granted as HSBC Holdings plc shares in three cases and in equal proportions of cash and HSBC Holdings plc shares in one case. A holding period of six months is stipulated in the latter case, in accordance with a disbursement structure specified in greater detail below. This element of remuneration equates to a fair value of € 6,512 thousand for 2010 (2009: € 4,485 thousand).

Other compensation in the amount of € 86.9 thousand (2009: € 85.6 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

As in previous years, the performance-related components for 2010 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. Of the shares allocated in 2010 as a variable component for the year 2009, the payments will be transferred in two equal instalments in the second and third years (in other words in 2012 and 2013) after the commitment. The shares in HSBC Holdings plc allocated within the scope of the variable remuneration for the 2010 financial year will be transferred in three equal instalments to three members of the Management Board in the next three financial years (in other words from 2012 to 2014). The so-called long-term incentive part of the variable remuneration for 2010 will be paid out in three equal instalments to one member of the Management Board, namely in 2012, 2013 and 2014; each of these three tranches will be paid in equal proportions in cash and in HSBC Holdings plc shares, for which a six-month holding period is stipulated.

Provisions totalling € 13.3 million (2009: € 11.1 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 7 June 2011, the compensation of the Supervisory Board will be € 1,134,330.82 (2009: € 1,122,838.37). The members of the Advisory Board received remuneration totalling € 362,025.00 (2009: € 353,100.00). Furthermore, fees were paid to four (2009: three) members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 313,862.5 (2009: € 301,791.38). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG and their surviving dependents totalled € 4.4 million (2008: € 4.4 million). Provisions totalling € 36.3 million (2009: € 34.5 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 69.

As in the previous year, advances and loans were not granted to members of the Supervisory Board and the Management Board. Contingent liabilities with respect to third parties in favour of members of executive bodies occurred only within the scope of the structure shown in Note 65.

69 ▸ Share-Based Payments

Breakdown of the share option scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2010	Number of option rights 31.12.2009
SAYE 2005 (5Y)	01.08.2005	3.00	8.42	–	34,175
SAYE 2006 (5Y)	01.08.2006	2.67	9.59	3,502	3,502
SAYE 2007 (3Y/5Y)	01.08.2007	2.90/2.99	9.08	6,784	34,797
SAYE 2008 (3Y/5Y)	01.08.2008	2.66/2.77	7.55	47,269	53,472
SAYE 2009 (1Y/3Y/5Y)	01.08.2009	1.67/1.59/1.50	3.64	791,160	995,110
SAYE 2010 (1Y/3Y/5Y)	01.08.2010	1.75/1.90/2.01	6.07	172,951	0
Total				1,021,666	1,121,056

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on August 1 of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2010 was € 7.74 (1 August 2009: € 7.15).

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2010	SAYE 2005–2009	1,121,056	4.16
Granted in the course of the year	SAYE 2010	172,951	6.07
Exercised in the course of the year	SAYE 2005 (5Y)/ SAYE 2007 (3Y)/ SAYE 2009 (1Y)	239,926	9.04
Forfeited in the course of the year	SAYE 2006–2010	32,415	9.74
Balance as at 31.12.2010		1,021,666	4.29
of which outstanding option rights		1,002,185	
of which exercisable option rights		19,481	

The staff expenses to be taken into account in the year under report are € 0.7 million (2009: € 0.8 million).

Breakdown of the share-participation scheme
As in the previous year, performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc in 2007. It can be broken down as follows:

in €m	Performance-related remuneration in HSBC shares	
	For financial year 2010	For financial year 2009
Maturing in March 2012	3.8	5.7
Maturing in March 2013	3.8	5.7
Maturing in March 2014	3.8	0.0
Total:	**11.3**	**11.4**

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 6.6 million (2009: € 2.2 million). The corresponding liability for share-based payments amounts to € 20.9 million (2009: € 10.4 million).

70 Statement on the German Corporate Governance Code Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the "Commission of the German Corporate Governance Code" and made this permanently available to the public on the HSBC Trinkaus & Burkhardt AG website under www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/corporategovernance.

71 Offices held by Members of the Management Board

As at 31 December 2010, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz (Chairman)	
Position	Company
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Deputy Member of the Board of Directors	L-Bank, Karlsruhe
Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt/Main
Member of the Board of Directors	KfW Bankengruppe, Frankfurt/Main
Member of the Executive Committee	KfW Bankengruppe, Frankfurt/Main

Paul Hagen	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
Member of the Advisory Board	RWE Supply & Trading GmbH, Essen

Dr. Olaf Huth	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Carola Gräfin v. Schmettow	
Position	Company
Chairwoman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairwoman of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

72 ▸ Offices held by Other Members of Staff

As at 31 December 2010, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Dr. Rudolf Apenbrink	
Position	Company
Chairman of the Board of Directors	HSBC Global Asset Management (Taiwan) Limited, Taipei, Taiwan
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Member of the Board of Directors	BaoViet Fund Management Limited Company, Hanoi, Vietnam
Supervisor	HSBC Jintrust Fund Management Company Limited, Shanghai, China
Rotating Vice Chairman	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland

Silke Büdinger	
Position	Company
Member of the Board of Directors	GS&P Kapitalanlagegesellschaft S.A., Wasserbillig, Luxembourg

Robert Demohn	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Gerd Goetz	
Position	Company
Member of the Supervisory Board	sino AG, Düsseldorf
Member of the Supervisory Board	tick-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf

Marcus Hollmann	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Dr. Detlef Irmen	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Wolfgang Jakobs	
Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Marc Landvatter	
Position	**Company**
Deputy Chairman of the Supervisory Board	Algopool InvAG, Cologne

Dr. Christiane Lindenschmidt	
Position	**Company**
Chairwoman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Dr. Manfred v. Oettingen	
Position	**Company**
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Hans-Joachim Rosteck	
Position	**Company**
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Heiko Schröder	
Position	**Company**
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Ulrich W. Schwittay	
Position	**Company**
Member of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf

Norbert Stabenow	
Position	**Company**
Deputy Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Hans Jakob Zimmermann	
Position	**Company**
Chairman of the Supervisory Board	Schaltbau Holding AG, Munich
Chairman of the Supervisory Board	Garant Schuh & Mode AG, Düsseldorf
Chairman of the Supervisory Board	Paragon AG, Delbrück
Member of the Supervisory Board	Merkur Bank KGaA, Munich
Member of the Board of Directors	Rheinzink GmbH & Co. KG, Datteln

73 ▸ Offices held by Supervisory Board Members

The members of our Supervisory Board also sit on the statutory supervisory boards and the comparable control bodies listed below:

Dr. Sieghardt Rometsch (Chairman)	
Position	Company
Chairman of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Member of the Board of Directors	HSBC Private Banking Holdings (Suisse) S.A., Geneva, Switzerland
Chairman of the Board of Directors	Management Partner GmbH, Stuttgart

Peter W. Boyles	
Position	Company
Member of the Supervisory Board	S.A. des Galeries Lafayettes, Paris, France
Deputy Chairman	HSBC France, Paris, France
Chairman	HSBC Bank A.S., Istanbul, Turkey
Director	HSBC Bank Malta plc, Valetta, Malta

Prof. Dr. h. c. Ludwig Georg Braun	
Position	Company
Chairman of the Supervisory Board	Aesculap AG, Tuttlingen
Chairman of the Supervisory Board	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund
Chairman of the Supervisory Board	REVIUM Rückversicherung AG, Melsungen
Member of the Supervisory Board	Aesculap Management AG, Tuttlingen
Member of the Supervisory Board	Frankfurter Allgemeine Zeitung GmbH, Frankfurt/Main
Member of the Supervisory Board	Stihl AG, Waiblingen
Member of the Supervisory Board	Findos Investor Fund I GmbH & Co. KG, Munich
Member of the Supervisory Board	WIKUS-Sägenfabrik Wilhelm H. Kullmann GmbH & Co. KG, Spangenberg
President of the Board of Directors	B. Braun Milano S.p.A., Milan, Italy
Vice President of the Board of Directors	B. Braun Holding AG, Lucerne, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Lucerne, Switzerland
Member of the Board of Directors	B. Braun Medical Inc, Bethlehem, USA
Member of the Board of Directors	B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia
Member of the Board of Directors	B. Braun Medical International S.L., Barcelona, Spain
Member of the Board of Directors	B. Braun Medical S.A., Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical S.A., Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main
Member of the Board of Directors	Wilhelm Werhahn KG, Neuss
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen

Dr. Hans Michael Gaul	
Position	**Company**
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	EWE Aktiengesellschaft, Oldenburg
Member of the Supervisory Board	Siemens AG, Munich
Member of the Supervisory Board	VNG – Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

Wolfgang Haupt	
Position	**Company**
Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	Pfleiderer AG, Neumarkt

Harold Hörauf	
Position	**Company**
Chairman of the Supervisory Board	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e. V., Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Pensionsfonds des Bankgewerbes AG, Berlin

Professor Dr. Ulrich Lehner	
Position	**Company**
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Porsche Automobil Holding SE, Stuttgart
Member of the Supervisory Board	Henkel Management AG, Düsseldorf
Member of the Supervisory Board	ThyssenKrupp AG, Düsseldorf
Member of the Board of Directors	Novartis AG, Basel, Switzerland
Member of the Shareholders' Committee	Henkel AG & Co. KGaA, Düsseldorf
Member of the Advisory Board	Dr. August Oetker KG, Bielefeld

Friedrich Merz	
Position	**Company**
Chairman of the Supervisory Board	WEPA Industrieholding SE, Arnsberg
Member of the Supervisory Board	AXA Konzern AG, Cologne
Member of the Supervisory Board	Deutsche Börse AG, Frankfurt/Main
Member of the Supervisory Board	Borussia Dortmund GmbH & Co. KGaA, Dortmund
Member of the Board of Directors	Stadler Rail AG, Bussnang, Switzerland
Member of the Board of Directors	BASF Antwerpen N.V., Antwerp, Belgium

Hans-Jörg Vetter	
Position	**Company**
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Chairman of the Supervisory Board	LBBW Equity Partners Verwaltungs GmbH, Munich
Chairman of the Supervisory Board	LBBW Equity Partners GmbH & Co. KG, Munich
Member of the Supervisory Board	Deutscher Sparkassen Verlag GmbH, Stuttgart
Deputy Chairman of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt/Main

74 ▸ Publication

The Annual Report will be released for publication on 14 April 2011. The release for publication was approved by the Management Board in its meeting on 11 March 2011.

Düsseldorf, 4 February 2011

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows, notes to the financial statements as well as the Group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the Group management report. Knowledge of the Group's business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the Group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that the audit provides a sufficiently sure basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with section 315a para. 1 HGB and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The Group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 18 February 2011

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner
Auditor

Signed by Bormann
Auditor

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2010	2009	2008	2007	2006
Total assets	**18,584.0**	**18,728.6**	**22,205.7**	**21,066.9**	**18,676.4**
Assets					
Cash reserve	336.1	177.0	139.5	332.3	436.3
Loans and advances to banks	1,402.9	2,429.4	2,979.7	4,117.0	4,440.1
Loans and advances to customers	3,089.6	2,687.5	4,082.6	4,272.9	3,173.1
Net loan impairment and other credit risk provisions	–49.1	–42.9	–21.4	–16.2	–17.0
Trading assets	10,130.6	10,005.7	12,482.6	10,436.8	9,044.0
Financial assets	3,305.9	3,126.1	2,118.8	1,568.2	1,437.6
Interests in associates	38.0	10.6	10.1	15.2	1.5
Property, plant and equipment	83.1	83.3	81.1	196.3	80.4
Intangible assets	38.9	44.1	56.0	12.3	9.3
Taxation recoverable	4.3	13.0	17.5	54.8	2.5
current	4.3	13.0	13.0	54.8	2.5
deferred	0.0	0.0	4.5	0.0	0.0
Other assets	203.7	194.8	259.2	77.3	68.6
Liabilities					
Deposits by banks	1,180.4	2,697.6	2,709.1	2,532.7	1,495.7
Customer accounts	10,148.0	9,062.1	11,592.8	10,283.2	8,861.4
Certificated liabilities	10.0	10.0	10.0	10.0	29.8
Trading liabilities	5,200.1	5,196.7	6,152.9	6,488.4	6,683.6
Provisions	96.5	152.2	117.4	112.4	113.0
Taxation*	66.7	67.7	85.1	106.0	62.0
current*	52.6	61.1	81.5	48.4	25.7
deferred	14.1	6.6	3.6	57.6	36.3
Other liabilities	214.1	95.3	108.2	106.8	105.4
Subordinated capital	378.4	384.4	458.7	458.7	440.6
Shareholders' equity*	1,289.7	1,062.5	955.0	968.7	884.9
Minority interests	0.1	0.1	16.5	0.0	0.0
Income statement					
Net interest income	128.7	143.3	139.5	110.0	88.6
Net loan impairment and other credit risk provisions	7.7	22.4	4.5	–3.5	–5.2
Share of profit in associates	0.4	0.6	0.5	6.4	2.5
Net fee income	404.0	346.2	347.6	318.1	281.8
Net trading income	124.6	117.9	98.2	100.1	104.0
Administrative expenses*	439.3	400.8	384.2	334.0	298.6
Other operating income	9.6	11.6	3.5	1.3	–1.0
Operating profit	220.3	196.4	200.6	205.4	182.5
Income from financial assets	–0.6	–24.0	–50.0	1.9	6.5
Income from derivatives in the bank book	–4.2	5.1	–11.1	0.0	0.0
Other net income	–5.5	–13.8	–1.3	–0.1	0.5
Pre-tax profit	210.0	163.7	138.2	207.2	189.5
Tax expenses*	70.6	54.5	48.6	63.2	74.9
Net profit for the year	139.4	109.2	89.6	144.0	114.6

* The prior-year figures were adjusted retrospectively in 2008 pursuant to IAS 8 as a result of the first-time application of IFRIC 11, Group and Treasury Share Transactions.

ANNEX C

Annual Report 2009 (consolidated financial statements)

The Annual Report 2009 (consolidated financial statements) are reproduced on the following pages and separately paginated (117 pages, from page C - 2 through page C - 118).

Annual Report 2009

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2009	2008	Change in %
Results in €m			
Operating revenues	619.6	589.3	5.1
Net loan impairment and other credit risk provisions	22.4	4.5	> 100.0
Administrative expenses	400.8	384.2	4.3
Operating profit	196.4	200.6	– 2.1
Profit before taxes	163.7	138.2	18.5
Tax expenses	54.5	48.6	12.1
Net profit for the year	109.2	89.6	21.9
Balance sheet figures in €m			
Total assets	18,728.6	22,205.7	– 15.7
Shareholders' equity	1,062.5	955.0	11.3
Ratios			
Cost:income ratio of usual business activity in %	68.3	72.9	–
Return on equity before tax in %	17.1	15.2	–
Net fee income in % of operating revenues	55.9	59.0	–
Funds under management and administration in €bn	99.1	87.2	13.6
Employees	2,280	2,238	1.9
Share information			
Number of shares issued in million	26.1	26.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	4.12	3.49	18.0
Share price as at 31.12. in €	98.0	89.0	10.1
Market capitalisation in €m	2,557.8	2,323.9	–
Regulatory ratios*			
Tier 1 in €m	817	754	8.4
Regulatory capital in €m	1,160	1,151	0.8
Risk-weighted assets in €m	7,850	8,588	– 8.6
Tier 1 ratio in %	10.4	8.8	–
Regulatory capital ratio in %	14.8	13.4	–

* following confirmation of the balance sheet

Group Management Report

Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 17 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) SA Luxembourg	HSBC Global Asset Management (Deutschland) GmbH Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers SA Luxembourg	HSBC Global Asset Management (Österreich) GmbH Vienna	Joachim Hecker Grundbesitz KG Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	HSBC Global Asset Management (Switzerland) AG** Zurich	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Real Estate GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	
HSBC Transaction Services GmbH* Düsseldorf	Trinkaus Private Equity Management GmbH Düsseldorf	

* renamed, formerly International Transaction Services GmbH (ITS)
** joint venture with HSBC Global Asset Management (France), Paris, established in 2009

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Seven companies acting as the managing partners of closed-end property funds and of private equity funds also form part of the Group.

The Group is managed as a single entity by the Management Board of HSBC Trinkaus & Burkhardt AG. Supervision of executives managing Group subsidiaries is carried out as a rule by the relevant Supervisory Board, Board of Directors, and Advisory Board. Notwithstanding their independent legal status, all companies are managed within the framework of an overall strategy.

Constitution of the Company

In accordance with the Articles of Association, the Management Board of the Bank must consist of at least two members. However, the Supervisory Board may appoint additional members of the Management Board in excess of this number. The Management Board currently consists of four persons.

The members of the Management Board are appointed and dismissed in accordance with the legal provisions of Section 84 German Stock Corporation Act (AktG).

Resolutions to amend the Articles of Association are passed by the Annual General Meeting with two-thirds of the share capital represented upon adoption of the resolution, provided no greater majority is required by law. The Supervisory Board is authorised to amend the Articles of Association insofar as such amendments merely relate to the wording.

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in Section 119 German Stock Corporation Act (AktG). Please see Note 40 "Shareholders' Equity" in our Consolidated Financial Statements in respect of the Management Board's current authorisation to issue shares.

In accordance with the resolution passed by the Annual General Meeting 9 June 2009, the Management Board has the right to buy and sell its own shares for the purpose of securities trading, but only at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or, if this cannot be determined, on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10 %. The number of shares bought for this purpose may not amount to more than 5 % of the company's share capital at the end of each day. This authorisation is valid until 30 November 2010.

The company has entered into no significant agreements which are subject to a change in the control of the company as a result of a takeover bid. The company has also not concluded any compensation agreements with employees or members of the Management Board in the event of a takeover bid.

Basic Features of the Compensation System for the Executive Bodies

The Supervisory Board has delegated its responsibility for determining the compensation of Management Board members to the Personnel Sub-committee of the Supervisory Board. The members of the Personnel Sub-committee of the Supervisory Board in the 2009 financial year were Dr. Sieghardt Rometsch (Chairman) and Harold Hörauf. The Personnel Sub-committee met four times in the 2009 financial year. With the Act on the Appropriateness of Management Board Compensation (VorstAG) the German Stock Corporation Act (AktG) has been amended to the effect that the entire Supervisory Board must now decide on the compensation of the Management Board. The rules of procedure for the Supervisory Board were adapted to the amended legislation in November 2009. As a result, the Personnel Sub-committee now only has an advisory function with a view to the compensation of the members of the Management Board.

The compensation of the members of the Management Board is laid down in contracts of employment which the Bank, represented by the Supervisory Board's Personnel Sub-committee, concludes individually with the various Management Board members.

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both. The cash component amounts to at least 50 % of the variable compensation. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013.

Price risks and opportunities arising from the shares allocated in the period up until transfer lie exclusively with the respective Management Board members.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2009 financial year can be found in Note 68 "Business Relationships with Companies and Persons Defined as Related Parties".

The Annual General Meeting decided with the required three-quarters majority on 5 June 2007 that the individual emoluments of the members of the Management Board are not to be published.

The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the deputy chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a sub-committee receive one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a sub-committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of members of the Supervisory Board in the 2009 financial year is reported under Note 68 of our consolidated accounts "Business Relationships with Companies and Persons Defined as Related Parties".

The Business Divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are assisted by Florian Fautz, Trevor Gander and Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)

HSBC Liaison
Company Secretariat
Compliance / Money Laundering
Strategic Planning
Corporate Communications
Audit Department and Data Protection

Central Functions B

Paul Hagen
Management Board

Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Management Board

Private Banking

Division II

Andreas Schmitz
Management Board

Syndicate / Issuing Business

Florian Fautz
Member of the Executive Committee

Investment Banking

Manfred Krause
Member of the Executive Committee

Corporate Banking
Foreign Business

Division III

Carola Gräfin v. Schmettow
Management Board

Institutional Clients
Asset Management
Securities Services

Division IV

Carola Gräfin v. Schmettow
Management Board

Global Markets

Division V

Paul Hagen
Management Board

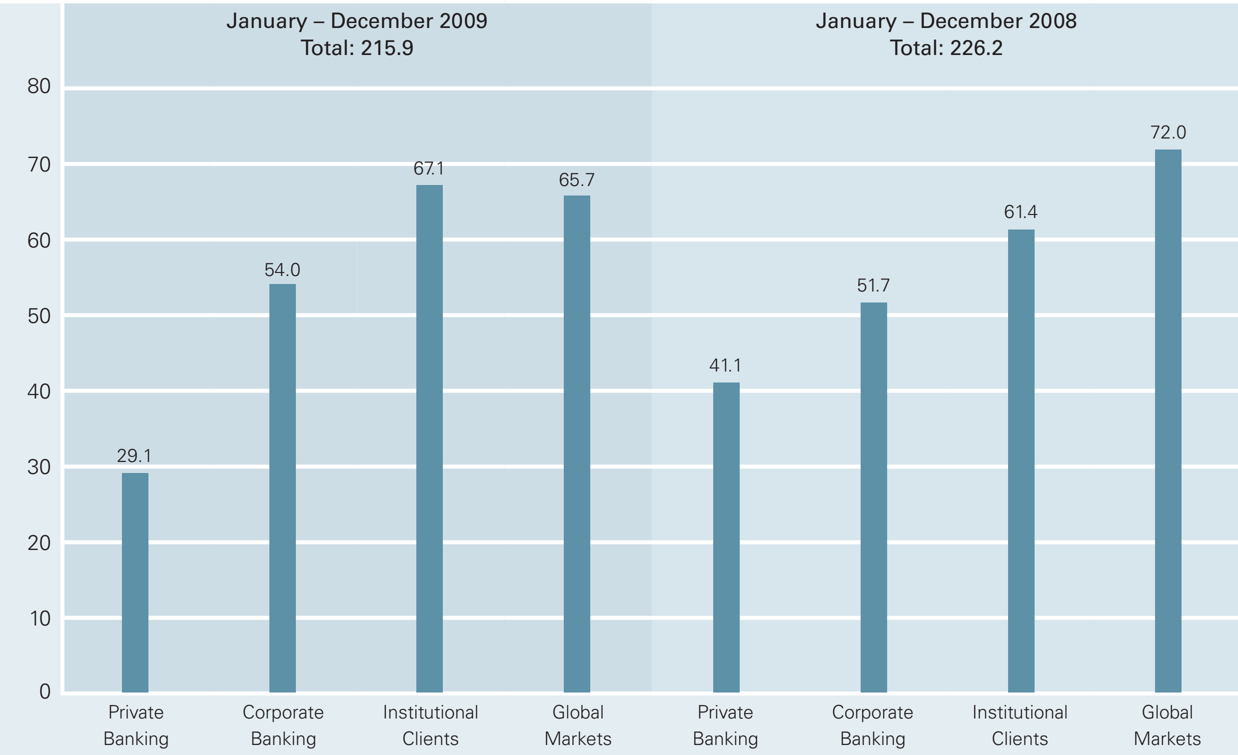
Operations
Business Process Development
Information Technology
Trading Systems
Securities Services

Trevor Gander
Member of the Executive Committee

Credit
Operational Risk

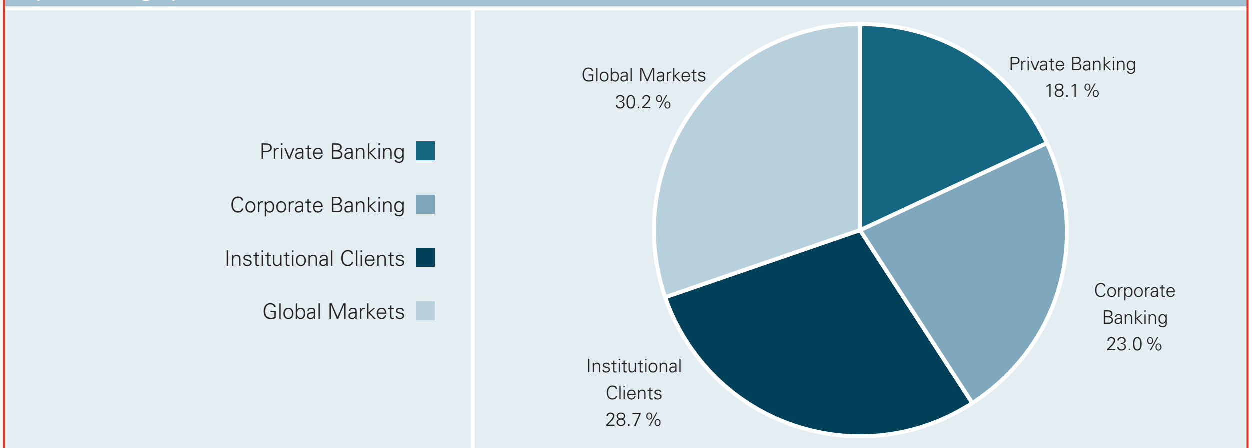
Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit in €m



After deduction of the € 19.5 million net costs incurred by head office functions during 2009, as against € 25.6 million for 2008, the 2009 operating profit was € 196.4 million (2008: € 200.6 million*). Mean contributions to profits over the last five years reveal a balanced picture:

5-year average profit contributions



Strategic Direction

The ongoing crisis continues to put major pressure on the economy and the financial markets in the 225th year of our history. However, the focus of crisis management is now being shifted away from short-term bailout measures towards a long-term reorientation of the financial markets that can even include major shakeups.

Governments and central banks had to act primarily as a rapid deployment force last year and, in order to stabilise the system, save banks irrespective of the quality of their business model. In Germany, this even led to the nationalisation of one individual institution which attracted major media attention. The primary task of governments, regulators and central banks will now be to create an internationally valid framework which allows the banks with a functioning business model to place themselves on a stable foundation again and which forces the banks without a sustainable business model to consolidate or wind up. This framework will have to guarantee at the same time that an incipient crisis of this dimension can be identified and prevented in future. A second major challenge the central banks will have to face is the controlled withdrawal of the large amounts of liquidity which were pumped into the markets last year.

Even though the banks appear to be gradually recovering, economic indicators are already giving off positive signals again and there has been no sharp increase in unemployment so far, we nevertheless do not expect the German economy to declare the crisis over in 2010.

The slump in overall economic output of around 5 % in the year of crisis in 2009 is reflected in the financial statements of many companies now being published. In regional terms, the percentage is far higher in individual cases.

This of course feeds through to the companies' credit standing, which in turn has repercussions for the banks' capital requirements with respect to lending. Consequently, their ability to grant new loans will be limited precisely at the moment when a possible upswing has to be financed. Politicians and bankers will accordingly have to continue to work hand in hand to avoid a credit squeeze and provide the basis for an economic recovery.

HSBC Trinkaus' position proved itself again in 2009. This shows that the business model functions not only in good times, but also – in contrast to many other financial institutions – in the severest financial and economic crisis since the Great Depression of 1929.

Based on a traditionally conservative stance, HSBC Trinkaus has developed and cultivated the ability to adapt to changes in the markets in good time and adjust its business model accordingly.

The overall economic environment will remain a challenge for HSBC Trinkaus and the entire sector in the months ahead and beyond as well. But it is exactly in this market situation that our strengths come into their own more than ever before. Our proven business model with its consistent orientation to clearly defined target groups and risk-aware trading will continue to form the basis for successful business performance. In addition, as a member of the HSBC Group we offer "the best of both worlds", namely the continuity, professionalism and individuality of a private bank together with the international service capacity and capital strength of a global financial services provider.

With this unique combination in the German banking landscape, we have been able to position ourselves especially in the financial market crisis as a trustworthy and solid partner, strengthen the commitment of our existing clients and acquire many new clients.

We want not only to consistently continue on this path, but also to use the opportunities arising for a globally operating bank on account of the distortions on the German banking landscape even more selectively through targeted investments in the market. The focus here lies on growth in the business with the upper and in particular the internationally oriented SME segment as well as the business with wealthy private clients. In addition, we will make targeted efforts to strengthen our product range in the institutional business so that we can do even more justice to our claim of being a core bank in this client segment as well.

Irrespective of this, we will continue to pursue our proven, conservative risk policy during this growth – true to the motto: we grow with our clients, not with our risks.

On the product side, naturally we offer our clients all the services of the traditional banking business, but we also distinguish ourselves in particular by the fact that we stand by them in solving complex problems on the national and international level. We are traditionally strong in the entire product range of the securities business, in interest rate and currency management, in international services and asset management as well as in the individual servicing of wealthy private clients. Our expertise in the capital and credit markets is also appreciated and used by our clients. By continuously updating our information and communication system, we ensure the most advanced banking technology and services of the highest quality in all product segments.

Our strategy is characterised by continuity and is based on the following six key considerations:

- We concentrate on the target groups of wealthy private clients, corporate clients and institutional clients, and we aim to expand our activities with existing and new clients in all of these segments, provided there is a balanced risk/earnings profile.

- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our existing and new clients from our target groups. Our decisions are made with the focus on our clients, and we attach the greatest importance to personnel continuity in servicing our clients.

- Our trading activities serve primarily to support the client segments and provide a comprehensive product range. When determining risk limits and trading strategies, the focus is always on the Bank's risk-bearing capacity.

- Innovative and client-related solutions are our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. The basis of every good client relationship is nonetheless the careful, flexible and service-oriented execution of standard transactions and is therefore of major importance for us.

- We are constantly expanding our service offerings in the securities business for clients and for other financial institutions. With our two securities settlement and fund administration subsidiaries – HSBC Transaction Services GmbH (formerly ITS) and Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) – we offer highly qualified services at competitive prices. Both subsidiaries show significant strength in their respective markets. Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank services and global custody services as well as in asset management in Germany and Austria with HSBC Global Asset Management.

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the powerful product range and the respective regional networks in 88 countries.

The success of this strategy depends on whether we continue to satisfy the following conditions:

- We must offer our clients unlimited access to the global HSBC network, without having to make compromises in terms of their requirement of individualised servicing on a private-bank level.

- We must continue to focus the business relationship with our clients on trust and sustainability. Only on this basis can clients and advisors work together to find optimum solutions against the backdrop of a growing variety of products.

- We must provide a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value-added chain so that we can offer our services at a competitive price and in a client-friendly manner.

- We must invest in the qualification of our employees through targeted training and advanced-training measures in order to do justice to the growing complexity and internationalisation of our business.

- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

Future needs tradition. In this respect we are very pleased to be able to celebrate the 225th anniversary of the Bank's foundation this year. Our anniversary motto is at the same time an expression of the stance we take: Committed to values.

The 2009 Financial Year

General Economic Setting

The global economy got off to anything but a successful start in 2009. The major loss of confidence in the economy as a result of the financial crisis brought about a breakdown in investment activity and a slump in world trade in the months around the turn of the year. The latter made itself felt in particular in Germany, which suffered a decline in gross domestic product (GDP) compared to the previous quarter of 3.5 % in the first quarter of 2009 owing to its major dependence on the export sector. There were even fears at the time that the global economy was facing a depression. However, the international coordination of monetary and fiscal policy was able to halt the downward spiral. For example, the European Central Bank (ECB) lowered the key interest rate to 1.0 % until May and made unlimited liquidity available to the banking system over the entire year. The promise to prevent the insolvency of further system-relevant banks made within the scope of the G20 meeting in London at the beginning of April in particular made a significant contribution to restoring confidence.

The Asian region, which was the quickest to return to its growth path thanks to high savings ratios, a solid banking system and major government economic aid, turned out to be the driving force behind the ensuing upswing. The German economy was also able to grow again in the second quarter, thereby putting an end to its recession. The Eurozone only managed to return to its expansion path in the third quarter. In addition to the stabilisation of world trade, the increase in sales in the automotive industry as a result of the wrecking bonus made a particular impact in Germany. The labour market was a further reason for the relatively solid private consumption in Germany. Considering the strength of the economic slump, there was only a moderate increase in unemployment. The short-time working benefits introduced by the government made a significant contribution to this development. The expenditure resulting from this and other measures to support the economy led to a major budget deficit in relation to GDP of 3.2 % in 2009. Below the line there remains a sobering balance for the 2009 business year with a decline in German GDP of around 5 %. The pressure on prices remained weak in this environment, with consumer prices increasing by only 0.4 % on average for the year.

The rescue packages introduced by governments and central banks throughout the world also left their mark on the financial markets. After getting off to a weak start, greater investor confidence led to the DAX ending 2009 with an increase of around 24 %. Significant price gains were also achieved with corporate bonds owing to a significant reduction in risk premiums. Driven by low central bank and money market rates among other things, European government bonds also ended the year with a clearly positive performance.

Profitability

With an increase in net profit for the year of 21.9 % to € 109.2 million, HSBC Trinkaus achieved a very solid result in the year under report providing evidence of the strength of our effective and client-oriented business model. This result enables us to pay an unchanged dividend compared to the previous year of € 2.50 per share and further strengthen reserves. Operating profit including net loan impairment and other credit risk provisions was down slightly on the previous year by 2.1 % to € 196.4 million. At 68.3 % the cost:income ratio as the main indicator of success remained within the adequate range for our business model of 65 % to 70 %.

The impact of our business model on the 2009 result varied considerably. On the one hand we were able to grow further in the business with corporate and institutional clients as well as trading, in some cases expanding our market position significantly. Benefiting from our financial strength, we were able to use the opportunities resulting from the major changes in the banking landscape. We want to remain firmly on this path, especially as the consolidation of the banking markets has only just begun. But we will continue to carefully weigh up the risks and opportunities and ensure that each client relationship is profitable.

On the other hand, we suffered a decline in revenues in the private banking business and had to make a considerable addition to net loan impairment and other credit risk provisions in the corporate banking business again for the first time in many years. Revenues in the private banking business declined due above all to the low interest rate policy pursued by the central banks, the sharp reduction in margins in the deposit business resulting as well as the restraint shown by investors in this uncertain stock market environment. Nevertheless, with our sustained client orientation and deliberately cautious market operations, we see good opportunities for us to grow further in this client segment as well, benefiting at the same time from changes in the competition. We continued to apply strict standards to net loan impairment and other credit risk provisions, carefully considering the still difficult economic environment in Germany with a further addition to collectively assessed impairments.

The individual items of the income statement developed as follows:

Net interest income was up 2.7 % to € 143.3 million. This is the result of widely varying trends in our business:

- There was a sharp decline in margins in the deposit business on account of the central banks counteracting the economic crisis with an easy money policy. We deliberately reduced the volume of deposits as we make no compromises with respect to the profitability of our business given our extremely good liquidity situation.

- On the other hand, margins in the lending business improved significantly owing to a clear move towards risk-adequate prices. Credit volumes declined slightly on average for the year as our clients have only relatively minor borrowing requirements in the current cyclical phase and have significantly tightened their working capital management. Order intake picking up again will lead to significantly greater borrowing requirements. We were able to increase our market share as we further expanded the business with clients with a good financial standing on a targeted basis thanks to our good capitalisation.

- Interest income from financial assets benefited in particular from our extremely good liquidity position.

We had to make a substantial addition to net loan impairment and other credit risk provisions again for the first time in several years. Both individually assessed impairments and collectively assessed impairment were increased significantly. On the other hand, we were able to reverse several individual impairments again in the year under report as well. Overall, we continue to apply strict standards to the assessment of default risks. The further course of the economic crisis will present a particular challenge to risk management in the lending business in the entire banking sector since the number of insolvencies is a lagging economic indicator. Thanks to the generally cautious approach we take to entering into risks, we see ourselves as relatively well equipped for the challenges that lie ahead.

At € 346.2 million in the year under report (2008: € 347.6 million) net fee income remains high and is by far the most important earnings component. Widely varying trends in our business are reflected here as well:

- In the securities business we were able to increase our result in a year-on-year comparison by 2.2 % to € 236.7 million despite a weak first half of the year. The consistent expansion of our depositary bank business made a significant contribution to this success. On the other hand, there was a substantial reduction in asset management revenues as the willingness of wealthy private clients to take risk and the risk-bearing capacity of institutional investors were not very pronounced.

- Net fee income from foreign exchange transactions and derivatives declined notably. The achievable margins in both the foreign exchange business and the business with interest rate and equity derivatives were significantly below the high prior-year level.

- In the traditional banking business such as credit business and payments there was a substantial increase in net fee income as we were able to use changes in the competition to our benefit. On the other hand, in the foreign business we were only able to partly compensate for the decline in the German economy's foreign trade with more risk-adequate margins.

- There was strong growth in the results in the issuing and structuring business in the year under report as we were represented very prominently in a large number of bond syndicates thanks not least to the strong placement power of the HSBC Group.

- The successful placement of a closed-end real estate fund is reflected positively in the real estate business.

Operative trading profit grew significantly by 20.1 % to € 117.9 million. Our proprietary trading activities remain focused on trading with equity-related products. We were once more able to gain market shares here in the retail business under our HSBC Trinkaus brand. The market for these products has become far smaller overall, above all with respect to products with a capital guarantee and other investment certificates. However, as we are traditionally very strong with respect to products for investors who are very close to the market and participate actively in trading, this decline only affected us far less than proportionately. In foreign exchange trading we were not able to repeat the very good prior-year result as the margins tended to weaken again after the rise the previous year. Interest rate trading on the other hand generated an extremely good result of € 46.2 million compared to € 2.4 million. Firstly, money market trading was again able to achieve a very good result on account of our liquidity position and client-related trading with registered Pfandbriefe and promissory note loans also did far better than in the previous year. Secondly, the bond portfolios also gave a particularly pleasing performance. The spread widening with respect to public-sector bonds, Pfandbriefe and bank bonds the previous year was now followed by significant spread narrowing to a large extent. The resulting strong valuation gains led to extraordinarily good net trading income. Since the markets have largely calmed down in the meantime, we see the past two years as characterised by crisis and therefore not representative of our result from interest rate trading.

Net trading income according to IFRS also includes profits from derivatives in the bank book of € 5.1 million resulting primarily from the hedging of a loan within the scope of our real estate business.

Administrative expenses were up 4.3 % to € 400.8 million. This includes a 2.4 % increase in personnel expenses to € 237.9 million, the result on the one hand of the slight increase in the number of employees in order to continue our growth strategy. On the other, the contribution to the Pension Security Association was significantly greater than in the past in the wake of the economic crisis. Thanks to our consistent cost management other administrative expenses rose moderately by 2.2 % to € 137.4 million. The increase was due mainly to the significantly higher contribution to the deposit guarantee fund in light of the financial market crisis. There was also a substantial increase in the depreciation of intangible assets. As weaker synergies made it necessary to adjust the business planning, partial goodwill amortisation was required.

Income from financial assets includes both realised losses of € 9.5 million and unrealised valuation losses of € 25.7 million. These are set against realised gains of € 9.4 million as well as write-ups on bonds of € 1.8 million. This means that income from financial assets was considerably better than in the previous year, but not satisfactory. As regards the valuation of our strategic financial assets, we have made no compromises in terms of our strict valuation standards. Instead, we have used the market value on the balance sheet date as a valuation rate for all equity holdings in the Annual Financial Statements if there has been a reduction in value of more than 20 % or for longer than nine months. However, an impairment reversal, as already began in the second quarter and continued to the end of the year, is not reported in the income statement, but in retained earnings according to IFRS. For bonds we have assessed the respective issuer risk individually and applied stringent standards, as is the case with net loan impairment and other credit risk provisions. An impairment can only be reversed where the original reason for impairment ceases to apply. Market values are calculated predominantly on the basis of market data taken from active markets, either directly based on market prices or using valuation models, which resort exclusively to observable parameters. As this is not possible only in individual cases, we have estimated individual parameters ourselves instead.

The asset situation

Total assets declined by 15.7 % in the year under report to € 18.7 billion. On the assets side, there was a decline in particular in trading assets compared to the previous year of 19.8 % to € 10.0 billion. Loans and advances to customers were down by 34.2 % to € 2.7 billion and loans and advances to banks by 18.5 % to € 2.4 billion. On the other hand, financial assets increased by 47.5 % to € 3.1 billion.

The decline in trading assets is the result firstly of a decline in the positive market values of derivatives which corresponds with a commensurate decline in the negative market values of derivatives in trading liabilities. This reflects market movements of foreign exchange transactions and interest rate derivatives above all. Secondly, there was a substantial decline in trading assets as investments were reduced significantly in the HSBC Group. These were mainly of a very short-term nature and served primarily the temporary investment of the extremely high volume of customer deposits at the previous year-end. Instead, we continue to strengthen our financial assets in the year under report. These consist largely of eligible bonds or promissory note loans issued by German federal states and can therefore be used for creating liquidity on a very short-term basis. Short-term realisability and eligibility is also an important decision criterion in the trading books. Our interest rate trading books include no positions resulting from acquisition financing or other transactions for which there is no longer a market today. The Bank has constantly avoided so-called toxic products.

There are various reasons for the decline in loans and advances to customers. The lower lending requirements of our clients were a significant factor here first of all since we continued to pursue our strategy in the client lending business of growing with our clients and dispensing with synthetic lending business. Even as times have become difficult, HSBC Trinkaus is a reliable partner for its clients and will remain so even in the event of a cyclical recovery and the higher borrowing requirements associated with it. The discontinuation of special transactions as well as the balance-sheet-date-related decline in the volume held on current accounts strengthened the effect with respect to loans and advances to customers. The decline in loans and advances to banks was mainly balance-sheet-date-related, with a large part of the decline attributable to deposits at other HSBC units.

On the liabilities side, customer accounts declined by 21.8 % to € 9.1 billion and trading liabilities by 15.5 % to € 5.2 billion. The recovery of the capital markets led to an increase in the level of investment of the investment funds clearly at the expense of short-term deposits. The decline in trading assets is the result firstly of the shrivelling certificates market in Germany and secondly of the decline in the negative market value of derivatives already commented on above. Our balance sheet is nevertheless still characterised by very high levels of customer deposits which account for more than three times our client lending business and almost 50 % of total assets. Thanks to this excellent liquidity position, we were able to easily compensate for the further slight decline in the volume of certificate and warrant placements.

The financial position

The Bank's liquidity position was very good throughout 2009. We deliberately hold large safety buffers with respect to the quantitative regulatory requirements relating to minimum liquidity with an average of 1.84 for the end-of-month positions according to the Liquidity Ordinance. In addition, we developed our monthly simulation calculations for the management of liquidity under normal and under stress conditions in close cooperation with the HSBC Group in the year under report. We have documented the main guidelines of our liquidity risk management in a comprehensive liquidity risk strategy.

Since 1 January 2008 we have been calculating the regulatory capital requirements according to the rules of the German Solvency Regulation (Solvabilitätsverordnung), via which the Basel II framework was adopted into national law. We continue to make use of the transitional provision under Section 64h para. 4 German Commercial Code (HGB) and when determining the adequacy of the capitalisation of the HSBC Trinkaus Group apply the procedure pursuant to Section 10a para. 6 German Banking Act (KWG). HSBC Trinkaus uses the internal-rating-based approach for counterparty risk and the basic-indicator-risk approach for operational risk. We further improved processes and attached greater importance to the consideration of security in the year under report.

In a reporting date comparison, the HSBC Trinkaus Group's positions requiring equity backing according to the regulatory provisions declined overall by 8.6 % to € 7.8 billion. The credit risk positions requiring equity backing declined by 13.2 % to € 5.9 billion. This is the result above all of the optimisation of our credit portfolio as well as the extended use of techniques of credit risk mitigation. The backing for market risks remains almost unchanged while a significant increase in backing for operational risks of 18.4 % to € 1.1 billion was needed in accordance with the regulatory requirements owing to our positive trend in earnings in recent years.

No capital increases were carried out in the HSBC Trinkaus group in 2009, not even for supplementary capital. However, HSBC Trinkaus & Burkhardt AG transferred € 130 million from the previous year's profit available for distribution to retained earnings in the year under report. We therefore see ourselves as still well equipped for the challenges presented by the banking business in Germany on the one hand and for further growth on the other. After the appropriation of profit we show a capital ratio of 14.8 % and a Tier 1 ratio of 10.4 %, which by far exceeds the banking supervisory requirements. We are in an excellent position even against the backdrop of the proposals to tighten the capital requirements for loan security currently being discussed in reaction to the financial market crisis. It is to be taken into consideration here in particular that the Bank raised no hybrid capital, but strengthened the Tier 1 ratio exclusively from capital and reserves.

Outlook for 2010

The global economy started out on the road to recovery over the course of 2009 and will continue along it this year. It will be propelled along in particular by the global continuation of expansionary monetary and fiscal policy. Positive impetus should also come from the inventory cycle since inventories are still at a very low level. The role of growth driver will be taken on by the emerging markets, where economic output is likely to grow by 6.2 % in 2010. But developed economies should also expand by 1.9 % after suffering a decline in gross domestic product last year.

The German economy is likely to benefit primarily in the export sector from the recovery of the global economy in 2010, leaving the other major economic regions of the Eurozone behind it with seasonally and calendar-adjusted growth of 1.6 %. We are expecting aggregate GDP growth of 1.2 % in the Eurozone. In this respect, there is no sign of a rapid return to the level of economic output reached before the crisis. The utilisation rate will therefore remain low. As we are also assuming a further rise in the unemployment rate and a higher external value of the euro, we expect the low pressure on prices to continue. There is therefore no need for the ECB to take immediate action. Against this backdrop we are not expecting a significant increase in capital market yields.

The German banking sector is in the middle of a crisis of unforeseen proportions which several leading institutions will only be able to survive with the help of the federal government and federal states. Some banks have only been saved from insolvency because the government has provided them with support in the form of taxpayers' money going into billions. The collapse of Lehman Brothers exemplifies the extent of the systemic risk in the global banking system. The support measures adopted by governments worldwide have prevented the collapse of further banks at risk and therefore the exacerbation of the crisis.

There is intense discussion at present over the regulatory measures with which governments want to prevent such a financial crisis arising again. These measures will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on business with three clearly defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than those of banks with strong investment banking activities and major dependence on proprietary trading.

We see our business strategy as confirmed by the current discussion. Since our overall client-focused orientation is not being questioned, HSBC Trinkaus' fundamental strategy will not be affected by the expected adjustments to the new regulations.

We therefore want to use 2010 and the years ahead to gain additional market shares in all business segments. The focus is on the significant expansion of business with SME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

The basis for this expansion strategy is:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities.
- integration in the HSBC group, one of the world's largest and most financially sound banking groups which, like HSBC Trinkaus, did not have to resort to support from government bailout packages.
- a strong own balance sheet with solid capitalisation and a good refinancing base.

An expansion strategy in an economic crisis means higher risks, but also greater opportunities. The drastic economic downturn has put pressure on the earnings situation and the capital position in several, particularly export-oriented, industries. We are convinced, though, that there are companies even in difficult sectors with major innovative power, clearly focused business models and ambitious management which will emerge from the crisis in a stronger position. We know that expanding the portfolio in particular with SME corporate clients entails risks in the current economic situation and could lead to greater risk provisioning expenditure. On the other hand, the credit margins already reflect this situation today at least in part. As other banks tend to withdraw, we are confident that we can grow in the market without lowering our credit standards.

We experienced favourable price gains on the stock markets and a good bond market performance especially in the corporate bond segment from the beginning of the second quarter of 2009. Both had a positive impact on bank income statements. However, we do not believe that this trend will repeat itself in 2010.

There will be a decline in the overall volume of bank revenues in Germany in 2010 which will also continue in the following years. We can therefore only increase our revenues by realising the targeted gain in market shares. Net interest income will play a more important role than in 2009 as income from fees and commissions will remain under pressure. The reasons for this are the uncertainties on the equity markets as well as the restraint and reduced willingness to take on risk shown by the clients. Strict cost management is decisive in this situation. We are expecting only a moderate increase in our administrative expenses in the years ahead, but will make sure at the same time that the infrastructure is lastingly strengthened by sufficient investments. We plan to increase our operating profit compared to 2009 and assume that we can experience a positive trend in operating profit in the following years as well.

The precondition for this is that stock market prices do not fall sharply again, for example as the result of a double dip which the economy could suffer when the government economic support programmes come to an end. In addition, the pressure arising from credit risks is not likely to grow significantly beyond the level of risk provisioning in 2009. We anticipate that the credit ratings of individual companies to which we are linked via medium- and long-term financing commitments will deteriorate in 2010. This applies in particular to the export-oriented sectors. As our credit portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast. Firstly, negative repercussions on the money and capital markets with a corresponding decline in our securities commission would then be expected. Secondly, doubts over the stability of banks with a high exposure in problem countries could develop into a systemic risk.

We regard a target cost:income ratio ranging between 65 % and 70 % as adequate for our business model as a universal bank with a wide range of products. With a ratio of 68.3 % we were in the target corridor in 2009. For the current financial year and for 2011 we again anticipate a ratio in the upper half of the corridor.

We are expecting differing trends in each of our client segments. Revenues in the business with wealthy private clients declined in 2009. We hope that our efforts to acquire new clients will lead to higher revenues. The performance we are expecting in important assets classes will presumably make broad diversification of assets even more important than to date. We are confident that we will be able to expand our market position and are open to acquisitions in this client segment. Based on the good performance of our clients' assets, the concentration on the professional management of large assets and our broad service offerings, we have strong arguments on our side.

HSBC Trinkaus' collaboration with the globally active HSBC Group puts the Bank in a unique position in the Corporate Banking business. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Foreign competitors are withdrawing from the market as the capital support they received has made them dependent on their governments and they are having to concentrate on business in their domestic market as a result. This withdrawal presents a particular challenge for the supply of loans to the German Mittelstand. Our new expansion strategy, which also includes an extended service offer, will enable us to further increase our credibility as a reliable partner in the corporate banking business. The procyclicality of Basel II, as well as the expected further deterioration in the credit ratings of export-oriented clients in particular, will lead to an increase in capital backing in the lending business. We have already made allowance for this in our strategy. The growth in our client base in recent years together with our new expansion strategy suggests that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The currently low interest-rate environment is making it difficult for many institutional investors to achieve their target returns. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. As we have taken a cautious approach to high-risk structures, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available to our clients. We also have direct access to the global trading books, which also enable large-volume transactions and the assumption of risk, and can thus offer added value. We can only offer our clients limited risk capital for new investments in 2010. Owing to this and the slow-down in momentum in the debt capital market business, we expect transaction volumes and the associated earnings contribution to decline.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. We benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is far below the high volume seen in previous years and is limiting the earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2009. The earnings contribution in the Treasury business is likely to be significantly weaker as further interest rate cuts are hardly to be expected.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration into the HSBC Group. In order to avoid operational risk, we will introduce additional business process controls, even if this is accompanied by further costs. It is obvious, though, that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs. We therefore want to make greater use of the service centres of the HSBC Group in 2010 and the following years also for other areas of the Bank based on our very positive experience in IT.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 10 % of risk assets enables the return-oriented expansion of our business. At the same time, we are in the position if need to be able to carry out a capital increase for earnings-oriented growth. We will carefully observe the effects of regulatory changes which could lead to increased capital requirements. Where necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depository bank activities.

State intervention is not likely to lastingly distort competition in the banking market and put pressure on market participants who responsibly carry out their business without government assistance. We therefore hope we will be able to pay our shareholders an appropriate dividend in the years ahead as well.

Risk Management

Definition

In accordance with German Accounting Standard No. 5 (DRS 5), we understand by Risk Management System (RMS) "a comprehensive set of control procedures covering all activities of an enterprise; these procedures are based on a defined risk strategy applying a systematic and consistent approach with the following components: identification, analysis, measurement, control, documentation and communication as well as the monitoring of these activities".

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively controlling it and systematically transforming it. We regard counterparty, market and liquidity risk, as well as operative and strategic risks, as the principal risks of our banking business. Active risk control entails identifying the nature, amount and extent of any risk and structuring the risk in such a way that it not only conforms to the Group's capacity to carry risk, but also offers corresponding risk premium and return.

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. We can minimise operational risk if there is a reasonable balance between risk avoidance and the related costs. Furthermore, the Bank has taken out adequate insurance. Reducing risks to our reputation is one of the basic approaches with respect to our business policy. We avoid liquidity risk as far as possible and are prepared to accept lower profits as a consequence.

The extent of the Bank's overall risk is limited by the Management Board in consultation with the Supervisory Board. The appropriateness of taking on a given risk is also assessed in particular against the backdrop of the Group's capacity to assume risk on the one hand and the special risk management expertise in our core lines of business on the other. These principles continue to apply.

Since the beginning of the banking crisis, the old principle of "liquidity before profitability" has proven to be extremely valid in a market environment which has undergone drastic change. This was shown clearly by the spectacular collapse of the US investment bank Lehman Brothers and the numerous government support measures introduced for individual banks in financial difficulties. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2009 as well. We extended our liquidity reserves and paid strict attention when investing the funds accruing in the money and capital market to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds.

The second central challenge facing our risk management was and is managing counterparty risk. When the crisis began in the second half of 2007, the primary focus to begin with was on the default risks of other financial market participants; these risks were mitigated later on by government equity support and assistance with liquidity and replaced by an increasingly critical view of country risks. The problems in Iceland in 2008 and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public. Even the solvency of Eurozone member states was, and is again at present, being questioned.

The impact of the economic downswing on corporate loans came more to the fore in 2009. Corporate credit ratings deteriorated on account of the recession, and this trend continues. This will put the banks' corporate lending portfolios under major pressure in 2010 as well, a development we take into consideration in our credit risk management.

HSBC Trinkaus' market risk management was faced with a major challenge until early 2009. The situation eased then considerably from April 2009 on. In trading with derivative equity products, we were able to expand our market share by quoting reliable prices for warrants and certificates at all times. This involved an increase in gap risks which we were easily able to integrate into the Bank's capacity to assume risk, though. The trading books for controlling throughout the Bank suffered substantially in the first three months of 2009 from the widening of spreads, which exceeded expectations. However, they recovered over the further course of the year in line with the market trend. We will continue to develop the limit system based on this new experience.

What we are observing overall is that the higher risk in nearly all areas of the banking business since mid-2007 requires an increase in risk premiums.

Risk management – organisational structure

The following three committees play a central role within the Group's risk management organisation:

- the Credit Committee for counterparty risk
- the Asset and Liability Management Committee for market and liquidity risk
- the Operational Risks and Internal Controls Committee for operational risk including legal and reputational risks.

The Internal Audit Department plays a major role in early risk detection. In its reports it highlights significant risks through the classification of its audit findings. In addition, it reports to the Management Board and the Audit Committee of the Supervisory Board based on follow-up examinations on the progress made with removing deficiencies ascertained.

This organisational structure ensures that risks are promptly identified and that suitable measures are taken in good time – also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks arise and can never be ruled out completely.

This is why short routes to the management, awareness of the risks entered into and the constant further development of risk management are decisive.

We implemented the new minimum requirements for risk management (MaRisk) on time at the end of 2009 and are preparing ourselves actively for the new requirements relating to liquidity risk.

Strategic risk

By strategic risk we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. Strategic risk results primarily form the Bank's strategic orientation. HSBC Trinkaus is particularly exposed to such risks as there is strong competition for our clients in the market owing to their major significance.

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offerings for wealthy private clients, can only counteract this risk to a limited extent. To a certain extent, we can counteract this risk in a targeted way thanks to our stronger collaboration with the HSBC Group through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

It is too early to judge at present whether HSBC Trinkaus' strategic situation will deteriorate because several competitors in the German banking market are using government state rescue packages to strengthen their equity and for state guaranteed refinancing. The risk premiums for counterparty risk have increased in the market in general and are tending to allow the risk-adequate pricing of banking services at present, although this trend is already starting to wane again. However, if the adjustment of risk premiums on account of government support is not lasting, it will mean the systematic distortion of competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation.

We made no substantial progress with the further modernisation of our IT architecture in 2008 as resources were tied up for the implementation of the flat-rate withholding tax. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the use of significant personnel and financial resources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further significant increase in the Bank's cost base. We completed the relocation of the computing centres to more modern locations with far greater operational security in the year under report. As a result, operational risk has been reduced, but the cost base has risen.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already repeated many times, that not more, but more effective regulation is required, will be implemented. The transfer of tasks stipulated by the government to the banks, such as money-laundering control and tax collection, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to a substantial increase in the Bank's fixed costs irrespective of its earnings opportunities. The regulatory costs are taking on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly. An increase in equity committed per transaction is foreseeable. The decline in the return on equity at the same time will have a fundamental effect on the structures of the banking business. HSBC Trinkaus is already actively preparing for the coming changes.

As a general principle, the continuous improvement of our efficiency is absolutely vital in order not to endanger the Bank's competitive situation.

On a positive note, the Bank's strategic orientation has proven itself in the current crisis.

Counterparty risk

(a) Organisation of the credit processes

Counterparty risk may be subdivided into credit and counterparty risk on the one hand and sovereign risk on the other. By counterparty risk we mean the risk of the partial or complete default by a business partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk.

The organisation of our credit department has been tailored to the size of the Bank's lending business and its target groups, thus enabling us to process and evaluate all counterparty risk in a professional and timely way.

Based on our clients' needs, before a loan is approved we examine the various options available for structuring a credit facility. These include, for example, syndications and loan securitisation using promissory note loans, or the issue of bonds.

We are guided by the principle of risk diversification: on the one hand we are careful to ensure that the borrower's risk of default is in proportion to its size and is shared with other banking institutions. On the other, we spread our credit risks widely across different industry sectors and counterparties.

We comply consistently with the minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin). In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

The Bank's central Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. The credit risk strategy coordinated with the Credit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to current requirements on a regular basis.

The Bank uses a 22-stage rating system to classify the credit quality of its corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. These systems are constantly being improved in detail. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and collateral agreements if required. In the private banking business, an internal risk assessment is carried out on expert level and a credit rating assigned accordingly. However, the lending business is of minor importance in this client segment and is carried out on a collateralised basis as a rule.

The rating system for the German SME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from his/her financial data. We developed this component with the help of internal client data. This is supplemented by an expert system which gives a qualitative evaluation of the customer and his/her economic environment. The rating system is completed by a set of rules for recognising liabilities within corporations. The selectivity of this statistical model has been proven on the basis of a large external database of German companies with very good results.

The rating systems for large international corporations, banks and financial service providers were adopted by the Bank from the HSBC Group after an internal inspection of their suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for the internationally oriented portfolios. All HSBC rating systems also include a qualitative evaluation of the company and its economic environment which is drawn up by the responsible customer service officer in Germany in collaboration with local credit experts. This evaluation is supplemented by statistical analysis of financial data and analysis of the sector and country risk.

The expected probability of default for each borrower can be derived from the rating categories. On this basis, we estimate the expected loss for the individual loan exposures taking security and other agreements into account. We set up net loan impairment and other credit risk provisions for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. Net loan impairment and other credit risk provisions fully cover the shortfall calculated in this way.

Each credit risk must be assessed and classified annually, or more frequently where the credit rating is lower, and subjected to the approvals procedure. It is assessed whether the profitability of the client relationship is adequate in proportion to the risk assumed. We examine this on a global basis for clients with relationships to other HSBC units.

The credit risk is monitored on a daily basis with the help of a risk limit system which monitors whether the approved credit lines are complied with.

In the case of non-performing, doubtful or problematic loans, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

Credit business is subject at regular intervals to internal auditing, both of counterparty risk and of working practices and methods.

Loans involving sovereign risk can only be granted within the framework of approved country limits. Loans to foreign borrowers always involve sovereign risk unless fully covered by domestic collateral. Loans to domestic borrowers may also involve sovereign risk if they are granted on the strength of foreign security, or if the borrower is largely dependent on a foreign shareholder.

The sovereign risks associated with counterparty risk are limited and monitored separately. Country limits are approved by the Management Board and the Credit Committee of the Supervisory Board and reviewed at least annually on the basis of political and economic analyses of the countries in question. In this context, the Bank makes use of the high-quality expertise available to it through HSBC's worldwide office network.

The compliance with country limits is controlled on a daily basis with the help of IT programmes that also take risk transfers to or from other countries into account.

The Bank is deliberately reticent about direct foreign lending, except where the purpose is to assist its own local clients in their business dealings throughout the world. We are then in the position here to offer comprehensive solutions with the help of the local HSBC units.

(b) Maximum default risk
Above all loans and advances, trading assets, financial assets as well as contingent liabilities and lending commitments can be affected by default risk. The risk of non-delivery can also arise in the settlement of payments transactions, foreign exchange trading as well as the securities services business. We pay greater attention to this risk despite the extremely short settlement periods.

The following table shows the Bank's theoretical maximum default risk as of the balance sheet date disregarding collateral received and other risk-reducing techniques. The maximum default risk can be quantified best by means of the gross book value of the financial assets including OTC derivatives. The netting provisions under IAS 32 as well as the impairments for financial investments under IAS 39 are taken into consideration in the gross book value. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees, the maximum default risk corresponds to the highest amount the Bank would have to pay in the event of a claim under the guarantee. The maximum default risk in respect of issued lending commitments, which cannot be revoked during their term or only in the event of a significant negative market change, is the full amount committed.

HSBC Trinkaus' maximum default risk according to this definition breaks down as follows as of the balance sheet date:

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Loans and advances	**5,116.9**	**22.6**	**7,062.3**	**26.8**
to banks	2,429.4	10.7	2,979.7	11.3
to customers	2,687.5	11.9	4,082.6	15.5
Trading assets	**9,546.8**	**42.2**	**11,947.8**	**45.3**
Bonds and other fixed-income securities	4,839.7	21.4	6,945.4	26.3
Equities and other non-fixed-income securities	832.4	3.7	383.7	1.5
Tradable receivables	1,917.2	8.5	2,001.6	7.6
OTC derivatives	1,542.9	6.8	2,223.4	8.4
Reverse repos/securities lending	72.6	0.3	74.4	0.3
Cash deposits	346.6	1.5	319.3	1.2
Financial assets	**3,126.1**	**13.8**	**2,118.8**	**8.1**
Bonds and other fixed-income securities	2,567.4	11.3	1,720.1	6.6
Equities	29.8	0.1	21.4	0.1
Investment certificates	145.3	0.6	142.6	0.5
Promissory note loans	277.3	1.2	127.6	0.5
Interests in subsidiaries	106.3	0.5	107.1	0.4
Contingent liabilities	**1,569.2**	**6.9**	**1,747.5**	**6.6**
Loan commitments	**3,290.2**	**14.5**	**3,489.2**	**13.2**
Total	**22,653.8**	**100.0**	**26,365.6**	**100.0**

(c) Collateral and other risk-reducing techniques
The provision of collateral is agreed in principle where necessary, for example with long-term financing or pure loans against securities. Netting agreements, where offsetting contracts with one customer can be netted against each other under certain conditions, are also concluded specifically in the derivatives business or agreements over guarantees for market values in the form of specific collateral. These agreements substantially reduce the theoretical maximum default risk represented above.

HSBC Trinkaus uses internally-developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is carried out in the line system.

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a programme which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. If no valuation is available for certain securities, then an individual decision is made with the help of a credit analyst as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are excluded from this. A valuation or an account/securities account statement for these guarantees is obtained from the third-party bank on a regular basis, but at least once a year.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract. In contrast, assigned receivables and transfers of title to physical objects as security are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when valuing assignments the legal status of the pledge and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location and the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is stipulated which is applied to the receivables portfolio and to the pledged tangible assets.

Land charges should be within a loan-to-value ratio of 50 % (mainly commercial use) or 60 % (mainly residual use) of the lastingly achievable market value determined on the basis of recognised expert methods. For real estate, the market value is based on the net income value as a rule. If residential properties are used mainly privately, the real value can also be applied.

Government and private loan insurance and bank guarantees in particular are considered as collateral in the international business. They are valued at the amount guaranteed.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 5 years at the latest. If the loan secured by a charge on property exceeds 50 % of the value of the property serving as collateral, an annual revaluation is required, though. As regards assignments and transfers of title as security, it is to be determined by the persons responsible how often and to what degree of detail corresponding proof of collateral is to be submitted by the customer.

The collateral value is automatically taken into consideration in the risk statement in respect of valued collateral.

If the collateral requirement for a credit line has not been fulfilled, i.e. either no collateral has been allocated in the system or the value of the collateral falls below the minimum value kept in the system, the line system reports that the credit line has been exceeded.

(d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7
Overdue, but not impaired	0.0	0.6	0.5	0.0	1.1
Individually impaired*	0.0	80.4	6.2	7.9	94.5
Total	2,429.4	2,687.5	1,569.2	3,290.2	9,976.3

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,979.7	4,020.5	1,739.1	3,488.9	12,228.2
Overdue, but not impaired	0.0	1.9	0.7	0.2	2.8
Individually impaired*	0.0	60.2	7.7	0.1	68.0
Total	2,979.7	4,082.6	1,747.5	3,489.2	12,299.0

* Including the setting-up of credit risk provisions

Trading assets and financial assets (exclusively bonds)

The following overviews are based on the results of external rating agencies (as a rule Standard and Poor's). It is taken into consideration that external issue ratings are only available on a regular basis for bonds and other fixed-interest securities. Should different rating agencies arrive at differing valuations of the same financial assets, the lower value is reported.

in €m	31.12.2009			31.12.2008		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	1,959.7	1,064.9	3,024.6	2,166.8	700.2	2,867.0
AA+ to AA-	1,823.8	910.6	2,734.4	3,897.1	682.3	4,579.4
A+ to A-	734.5	320.6	1,055.1	600.3	150.0	750.3
BBB+ to BBB-	41.8	146.6	188.4	18.3	103.0	121.3
Lower than BBB–	1.8	18.4	20.2	0.3	13.8	14.1
No rating	278.1	106.3	384.4	262.6	70.8	333.4
Total	**4,839.7**	**2,567.4**	**7,407.1**	**6,945.4**	**1,720.1**	**8,665.5**

OTC derivatives

For an assessment of the credit quality of OTC derivatives, their market values are classified by counterparty below:

		31.12.2009		31.12.2008	
		in €m	in %	in €m	in %
OECD	Banks	1,130.0	73.5	1,623.0	73.0
	Financial institutions	228.4	14.8	224.9	10.1
	Other	179.1	11.6	374.2	16.8
Non-OECD	Banks	0.7	0.1	0.0	0.0
	Financial institutions	0.1	0.0	0.0	0.0
	Other	0.1	0.0	1.3	0.1
Total		**1,538.4**	**100.0**	**2,223.4**	**100.0**

(e) Information on exposures which are neither overdue nor impaired

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto 7 financial grades. Financial grades 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as of the balance sheet date was as follows:

in €m	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit ratings 1 – 2	2,134.9	932.3	715.6	1,331.1	5,113.9
Credit ratings 3 – 4	294.5	1,432.3	839.3	1,945.6	4,511.7
Rating category 5	0.0	241.9	7.6	5.6	255.1
Total	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit ratings 1 – 2	2,916.0	1,645.0	988.8	1,666.1	7,215.9
Credit ratings 3 – 4	55.0	2,291.3	737.0	1,822.8	4,906.1
Rating category 5	8.7	84.2	13.3	0.0	106.2
Total	2,979.7	4,020.5	1,739.1	3,488.9	12,228.2

As in the previous year, no restructuring of individual loan agreements was carried out.

(f) Information on loans and advances which are overdue, but not impaired

The Bank's loans and advances which have not been impaired although overdue amounted to € 0.6 million in the year under report (2008: € 1.9 million) and are exclusively to customers. € 0.1 million (2008: € 0.5 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. We made no corresponding impairments on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at € 0.1 million in the year under report (2008: € 0.5 million).

There are also overdue, but not impaired claims resulting from excess interest of € 0.5 million (2008: € 0.4 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was € 0.5 million (2008: € 0.5 million).

There were no further overdue, but not impaired loans and advances to customers in the year under report (2008: € 1.0 million).

(g) Information on exposures for which net loan impairment and other credit risk provisions have been set up

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, then we correct the probable recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experience assessment by the person responsible. The credit ratings 6 and 7 include problematic exposures for which net loan impairment and other credit risk provisions have been set up. Net loan impairment and other credit risk provisions set up to allow for country risks also include exposures with higher credit ratings. Net loan impairment and other credit risk provisions for country risks stood at € 3.0 million in the year under report (2008: € 3.1 million).

The following table shows the individually impaired financial assets as of the balance sheet date:

in €m	31.12.2009			31.12.2008		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before individually assessed impairments						
Credit ratings 1 – 5	0.0	0.0	0.0	0.0	5.2	5.2
Rating category 6	0.0	74.4	74.4	0.0	51.1	51.1
Rating category 7	0.0	6.0	6.0	0.0	3.9	3.9
Total	**0.0**	**80.4**	**80.4**	**0.0**	**60.2**	**60.2**
Individually assessed impairments						
Credit ratings 1 – 5	0.0	0.0	0.0	0.0	3.2	3.2
Rating category 6	0.0	25.2	25.2	0.0	9.6	9.6
Rating category 7	0.0	4.3	4.3	0.0	2.2	2.2
Total	**0.0**	**29.5**	**29.5**	**0.0**	**15.0**	**15.0**
Book value after IAI*	**0.0**	**50.9**	**50.9**	**0.0**	**45.2**	**45.2**

* IAI Individually assessed impairments

Within the scope of net loan impairment and other credit risk provisions HSBC Trinkaus also makes credit risk provisions for individual contingent liabilities and loan commitments which amounted to € 3.2 million in the year under report (2008: € 5.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 13.4 million (2008: € 6.4 million) for loans and advances and € 3.6 million (2008: € 1.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 63.3 million (2008: € 43.7 million) as of the balance sheet date.

(h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 26.9 million (2008: € 38.3 million) in the year under report.

(i) Realisation of collateral received and drawing on other credit improvements

Collateral received and other credit improvements amounting to € 26.7 million were realised and drawn on, respectively, in the 2009 financial year (2008: € 11.3 million).

(j) Information on credit risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region.

As of the balance sheet date the Bank's theoretical maximum default risk breaks down as follows:

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	9,439.0	41.7	12,584.9	47.7
Companies and self-employed professionals	8,068.7	35.6	9,191.2	34.9
Public sector	4,797.2	21.2	4,278.3	16.2
Employed private individuals	348.9	1.5	311.2	1.2
Total	**22,653.8**	**100.0**	**26,365.6**	**100.0**

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	15,483.2	68.3	18,120.5	68.7
Other EU (including Norway and Switzerland)	5,885.8	26.0	6,814.3	25.9
North America	650.2	2.9	314.1	1.2
Asia	472.4	2.1	632.1	2.4
South America	70.5	0.3	430.8	1.6
Africa	39.9	0.2	18.9	0.1
Rest of Europe	33.8	0.1	31.4	0.1
Oceania	18.0	0.1	3.5	0.0
Total	**22,653.8**	**100.0**	**26,365.6**	**100.0**

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 2,674 million (2008: € 4,579.5 million).

It can be seen from the breakdown by region that a substantial part of the loans and advances is concentrated in Germany as well as in EU countries including Norway and Switzerland. As the political situation and law and order are stable in these regions, no increased default risks are to be feared.

(k) Counterparty risk monitoring as required by the supervisory authority

A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus. The Credit Risk Control department has evolved from this project group. As the counterparty risk monitoring unit required by the supervisory authority, this department is responsible for the maintenance, monitoring and further development of the credit risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

(l) Credit portfolio management

The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks on portfolio level. For this purpose the Bank is still using a simplified portfolio model at present which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. We work very closely with the HSBC Group here and plan to introduce the portfolio model used on the Group level in line with the market in the near future. The results of the risk-sensitive analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

(m) Stress tests

Both the internal and the external risk-sensitive assessments of the credit portfolio are subjected to various stress test scenarios on a quarterly basis. The stress tests are conceived and the calculation and analysis of the results carried out by the Credit Risk Control department involving the Credit department and the Corporate Banking segment. There is extremely close cooperation with respect to both methods and scenarios with the HSBC Group here as well.

Operational risk

We define operational risk as the risk of losses caused by fraud, unauthorised activities, errors, negligence, inefficiency or system faults, as well as those caused by external events. Operational risks exist in any area of an organisation and embrace a broad spectrum. Legal risks are also regarded as operational risks.

HSBC Trinkaus has always attached major importance to the reduction of operational risk to a level which is acceptable from the point of view of the costs involved. The Operational Risks and Internal Controls Committee is the central body responsible for the control of operational risk as well as reputational risk across the board within the Bank. The Committee meets every two months and is chaired by the Executive Committee member responsible for Credit & Operational Risk. The Deputy Chairman of the Committee is the Management Board member responsible for Risk Controlling. The Committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank and the entire HSBC Trinkaus Group.

The Committee's task is to identify operational risk across the Group, to evaluate and monitor it and to take steps for its control and future avoidance. The business procedures and processes in all of the Bank's divisions and subsidiaries are analysed in collaboration with the respective divisional heads and managing directors as well as the decentralised coordinators for operational risk in order to identify potential operational risks. The Committee uses these and other measures to monitor the effectiveness of the internal control environment.

Identified operational risks are evaluated with respect to their possible loss potential; the probability of these risks occurring before any risk reduction measures have been introduced is also examined. The absolute extent of the risk is determined in this way. Controls already implemented are then taken into consideration and on this basis the risks are allocated to one of four risk categories. If the Committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. For example, the Committee can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

The risks, including their valuation, measures introduced as well as losses incurred are formally documented in a system developed by the HSBC Group. The decentralised coordinators for operational risks in the individual business divisions and subsidiaries are responsible for seeing to it that the information recorded reflects the current risk profile at all times.

As the Group-wide coordinator, the secretary of the Operational Risks and Internal Controls Committee initiates and monitors the implementation of the Committee's decisions in the Bank including its subsidiaries. The methods, concepts and instruments of operational risk management are constantly refined and developed further in close collaboration with the HSBC Group.

The minutes of the Committee meetings are approved and particularly important points discussed in the Management Board meetings. This ensures that all Management Board members are constantly informed about current developments and the Bank's risk profile.

A further significant instrument for identifying and observing operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus are involved. All operational problems that lead to significant loss of profit, or which could have done so under unfavourable conditions, must be reported to the Committee's office. This ensures that each incident, including each potential incident, is analysed to establish whether the error was an isolated occurrence or is likely to recur. The Committee then decides how this risk can be reduced if necessary. All operational incidents above a certain preset reporting threshold are centrally recorded in an incidents database.

The Supervisory Board is informed once a year about the activities of the Operational Risks and Internal Controls Committee. This also includes a statement of overall losses including an explanation of particular occurrences.

In addition to the reporting system for incidents, staff are asked to report problems connected with operational risk to the Committee's office.

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The work carried out by the Committee in recent years has significantly increased the awareness of operational risk among all employees. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk as well as reputational risks. In light of this, regular training is carried out in the various business areas of the Bank. In addition, every new employee has to take part in corresponding obligatory training on the topic of operational risk.

HSBC Trinkaus minimises operational risk by the constant control of working processes, security measures and not least by the employment of highly qualified staff. Operational risk is also partly covered by insurance. The processes in the Bank are regularly analysed and improved on an ongoing basis. In particular, the Operational Risks unit is also involved in the conception and approval of new products and services in order to ensure that operational risks are identified early on and minimised via suitable measures. Flat hierarchies and direct communication mean that problems can be quickly removed and risk therefore reduced.

Workflow descriptions of the individual business processes stipulate in detail which controls are built into the processes in question. We attach particular importance to the principle of dual control. Workflow descriptions are revised on a regular basis and managed centrally.

Market risk

Market risk is understood as the extent to which the market value of a financial instrument can rise or fall to the Bank's disadvantage based on changes to market price parameters. Market risk includes the following three types of risk: exchange rate risk, interest rate risk as well as equity and other price risks. Market risks arise at HSBC Trinkaus primarily from interest rate, equity and foreign exchange trading activities as well as to a lesser extent from commodities where there is no physical delivery.

To measure market risks in our trading book under normal market conditions for many years we have been using a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 5 of the Consolidated Financial Statements „Financial Instruments" for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in market parameters. With respect to interest rate risk we consider both general interest-rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from non-financials in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates
- Zero interest rates for typical maturities from swap, government bond and Pfandbrief yield curves
- Equity and equity index option volatilities for typical maturities
- Foreign exchange options volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

The inclusion of further spread risks in the risk model is in the conception phase; we are aiming for approval by the supervisory authorities in 2010. Issuer-specific interest-rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits, including limits for sensitivities and special stress scenarios.

The total market risk of HSBC Trinkaus & Burkhardt AG according to our internal risk model and comparable figures for our Luxembourg subsidiary is as follows:

in €m	2009			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.8	2.1	3.6
Foreign exchange transactions	0.2	0.3	0.1	1.0
Equity and index transactions	4.6	3.3	0.8	6.2
Total potential market risk in the trading portfolio	**4.7**	**4.9**	**2.7**	**8.4**

in €m	2008			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.5	1.9	4.0
Foreign exchange transactions	0.0	0.2	0.0	0.5
Equity and index transactions	3.8	1.6	0.7	4.0
Total potential market risk in the trading portfolio	**4.4**	**3.1**	**2.0**	**5.0**

Risks relating to interest rates and equities still represent the Bank's greatest market risks. As a result of the financial market crisis, there were far greater moves in the market on individual days. This led to higher risk parameters and therefore to slightly higher values at risk.

We also use our internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries.

For the purposes of assuring risk-assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. No back-testing anomalies were found throughout the Bank in 2009. After two anomalies in 2008, this suggests that the risk modelling employed is probably on the conservative side given the major distortions on the financial markets in the meantime.

Outside the model we continue to employ a number of additional sensitivity, volume and maturity limits in order to avoid concentration risks and also account for those risks which cannot be entirely incorporated into the model. We counteract high levels of uncertainty in the valuation of positions in illiquid markets not only by using limits, but also by making adequate valuation adjustments.

Value-at-risk approaches are acknowledged as unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences. To cater to this, we supplement our full risk identification system with daily stress testing of all trading departments in order to assess the impact of extreme market movements on the value of positions. The stress testing results form part of the daily risk reporting process and provide us with valuable additional information. Separate limits are defined for the losses arising from the stress tests, and the scenarios we use are regularly checked and adjusted.

Compliance with all risk limits is monitored every day by Market Risk Control on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the Asset and Liability Management Committee on the basis of their capacity to assume risk and are adjusted, if necessary, during the course of the year. Market Risk Control also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to HSBC.

The average market risk potential in the investment book (99 % confidence interval / 1-day holding period) came to € 3.5 million (2008: € 1.2 million). Market risks in the Bank's investment book are limited to interest-rate as well as equity and other price risks. They are determined outside the risk models and are controlled at the executive management level.

Liquidity risk

We understand liquidity risk as the danger of insolvency which arises if long-term assets are financed on a short-term basis and unexpected outflows of funds cannot be compensated.

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in order to remain solvent at all times, even in the event of extreme events.

The following overview shows Trinkaus & Burkhardt AG's key liquidity ratio in accordance with the Liquidity Ordinance (LiqV), which by far exceeds the statutory requirements:

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2009	2008
31.12.	1.79	1.57
Minimum	1.63	1.51
Maximum	2.08	1.83
Average	1.84	1.61
Reference value in accordance with Section 2 LiqV	**1.00**	**1.00**

The ratio of loans and advances to customers to customer deposits is a further central ratio for managing liquidity throughout the Bank. It stood at 29.7 % (2008: 35.2 %) at the end of the year. There was no material concentration of liquidity risks with respect to assets and financing sources or in respect of foreign currencies.

The extent and composition of the liquidity cushion consisting of liquid funds and liquid assets is of central importance with respect to liquidity management. The cushion is meant to secure the Bank's financial solvency even given unexpected outflows of funds. The minimum amount of the cushion is derived from a stress scenario which shows a major outflow of customer deposits, the immediate drawing on part of uncalled loan commitments, a decline in value of the debt securities held as collateral on account of market conditions and a strong increase in the collateral requirements of central counterparties. The scenario is meant to simulate the effect of a rating downgrade of up to three rating notches. The most important component of the liquidity cushion is the opportunity of refinancing at the central bank in order to cover unexpected liquidity requirements arising in the short term. As of 31 December we had deposited unused collateral with a collateral value of € 4.85 billion at the Bundesbank giving us potential access to central bank loans to this extent. However, we participated in main refinancing operations only once in 2009 in order to demonstrate the access to this source of refinancing, which we did not use otherwise.

In addition to the scenario relevant for calculating the liquidity cushion, we evaluate further scenarios within the scope of our monthly stress tests which differ in terms of the varying assumptions with respect to institution-specific or market-wide results. In each scenario we forecast the cumulative change in the accumulated liquid funds per maturity band. Alongside the maturity bands of one to seven days and seven days to one month, four further maturity bands up to one year are examined in which the balance of the cumulative inflows and outflows must remain positive in each case. Parallel to these stress tests, we draw up quarterly liquidity commitment reports and liquidity outflow analyses.

We issue no funding tools which provide for accelerated repayment depending on the deterioration of credit quality or which can be settled by the delivery of treasury shares instead of in cash. Obligations to provide collateral in cash or in securities can arise unilaterally in connection with stock exchange transactions which are settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders. The individual transactions are usually subject to netting agreements. As of 31 December 2009 the Bank had received € 74.4 million and provided € 346.6 million in cash collateral under such collateral riders.

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk position. ALCO's duties include monitoring liquidity ratios, the liquidity cushion and liquidity stress tests as well as the regular adjustment of the emergency liquidity plan. ALCO is also responsible for transfer pricing for liquidity allocation within the Bank. In order to detect liquidity risk early on, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. Our three-stage emergency liquidity plan can be activated at short notice and ensures that the Bank can fulfil its payment obligations at any time, even without HSBC's support. At the same time, we are not permanently reliant on central bank liquidity to finance our business model. We want to fund our lending business entirely out of customer deposits or funds raised via bonds, certificates or promissory note loans, which is expressed not least in the parameters given above. Moreover, the constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit either.

Our subsidiary in Luxembourg is included in liquidity risk management at the Group level according to the procedures and parameters used throughout the Group. In addition, as an individual institution it controls its liquidity independently, thereby fulfilling all the regulatory requirements in Luxembourg.

We see liquidity risk as a consequential risk of a lack of confidence in providers of outside capital which is frequently prompted by expected losses in connection with credit, market or operational risks. As the latter risks are already to be backed with capital, we believe providing liquidity risk with its own capital backing makes no sense if the capital cushion is adequately endowed for other risks.

In order to show the Bank's liquidity risk, an overview of the residual terms of the financial liabilities is given in the table below. The cash flows agreed by contract are reported on an undiscounted basis. Such undiscounted cash flows can deviate from the book value shown in the Balance Sheet insofar as discounted values are taken into consideration in the Balance Sheet.

in €m	31.12.2009						
	Book value	Gross outflow (not discounted)					
		Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	2,697.6	2,699.7	2,641.0	9.7	30.9	13.7	4.4
Customer accounts	9,062.1	9,093.8	7,900.3	597.7	315.6	99.9	180.3
Certificated liabilities	10.0	13.1	0.4	0.0	0.0	1.2	11.5
Trading liabilities (excluding derivatives*)	2,740.6	3,111.2	183.4	183.5	498.0	1,297.1	949.2
Derivatives in hedging relationships	3.2	3.7	–0.3	–0.1	1.9	1.3	0.9
Provisions**	152.2	162.6	140.4	0.0	0.0	0.0	22.2
Other liabilities	95.3	97.3	23.1	34.2	21.0	10.9	8.1
Subordinated capital	384.4	650.4	0.0	0.0	6.2	39.2	605.0
Sub-total	15,145.4	15,831.8	10,888.3	825.0	873.6	1,463.3	1,781.6
Financial liabilities outside the balance sheet:							
Financial guarantees	351.6	351.6	351.6	0.0	0.0	0.0	0.0
Loan commitments	3,290.2	3,290.2	3,290.2	0.0	0.0	0.0	0.0
Total	**18,787.2**	**19,473.6**	**14,530.1**	**825.0**	**873.6**	**1,463.3**	**1,781.6**

in €m	31.12.2008						
	Book value	Gross outflow (not discounted)					
		Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	2,709.1	2,737.1	2,469.8	16.0	63.7	182.0	5.6
Customer accounts	11,592.8	11,745.7	9,841.7	785.7	582.7	223.3	312.3
Certificated liabilities	10.0	13.5	0.4	0.0	0.0	1.2	11.9
Trading liabilities	6,152.9	6,948.1	2,244.4	273.0	1,223.7	817.2	2,389.8
of which derivatives	3,192.9	3,662.8	286.5	267.9	1,169.9	661.1	1,277.4
Provisions**	117.4	127.2	106.5	0.0	0.0	0.0	20.7
Other liabilities	108.2	116.1	26.2	50.4	12.1	14.1	13.3
Subordinated capital	458.7	732.4	5.0	3.0	68.8	37.2	618.4
Sub-total	21,149.1	22,420.1	14,694.0	1,128.1	1,951.0	1,275.0	3,372.0
Financial liabilities outside the balance sheet:							
Loan commitments	3,489.2	3,489.2	3,489.2	0.0	0.0	0.0	0.0
Total	**24,638.3**	**25,909.3**	**18,183.2**	**1,128.1**	**1,951.0**	**1,275.0**	**3,372.0**

* In accordance with the changes to IFRS 7 in March 2009, no derivatives in trading liabilities are included in the liquidity analysis by contractual residual term which do not serve to hedge the Bank's long-term positions.
** Net obligations pursuant to IAS 19 are recognised with their average term.

Analysis of the residual terms shows that most of the financial instruments are due by contract within the first three months of the balance-sheet date. It is to be taken into consideration, though, that liabilities do not necessarily have to be repaid at the earliest possible point in time and that uncalled loan commitments are not drawn on in full.

IFRS 7 requires that gross outflows are shown by contractual residual term. The informative value of such a table showing the Bank's liquidity is only limited as the expected cash flows are used above all for effective management. Internal liquidity management as well as the supervisory ratios give a far better insight into the liquidity position here.

Since the Bank's liquidity situation cannot be adequately reproduced by looking at liabilities alone, the book values of the main assets and liabilities by residual term which will lead to future cash outflows or inflows are set against each other in the table below:

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Loans and advances to banks	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
	31.12.2008	2,190.7	561.6	227.4	0.0	0.0	0.0	2,979.7
Loans and advances to customers	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
	31.12.2008	2,688.0	558.9	453.9	149.3	232.5	0.0	4,082.6
Trading assets*/**	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
	31.12.2008	12,482.6	0.0	0.0	0.0	0.0	0.0	12,482.6
Financial assets	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
	31.12.2008	56.4	6.1	23.1	949.6	812.5	271.1	2,118.8
Other assets	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
	31.12.2008	16.3	0.0	40.6	0.0	0.0	202.3	259.2
Total	31.12.2009	**13,763.9**	**786.1**	**634.6**	**1,948.6**	**834.0**	**471.7**	**18,438.9**
	31.12.2008	**17,434.0**	**1,126.6**	**745.0**	**1,098.9**	**1,045.0**	**473.4**	**21,922.9**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Deposits by banks	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
	31.12.2008	2,468.9	15.9	62.0	158.2	4.1	0.0	2,709.1
Customer accounts	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
	31.12.2008	9,833.5	778.0	565.7	192.5	223.1	0.0	11,592.8
Certificated liabilities	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2008	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*/**	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
	31.12.2008	6,152.9	0.0	0.0	0.0	0.0	0.0	6,152.9
Provisions***	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
	31.12.2008	106.3	0.0	0.0	0.0	11.1	0.0	117.4
Other liabilities	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
	31.12.2008	26.1	49.9	11.7	12.2	8.3	0.0	108.2
Subordinated capital	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
	31.12.2008	5.0	3.0	66.3	31.0	353.4	0.0	458.7
Total	**31.12.2009**	**15,895.0**	**639.6**	**370.2**	**151.4**	**538.9**	**0.0**	**17,595.1**
	31.12.2008	**18,592.7**	**846.8**	**705.7**	**393.9**	**610.0**	**0.0**	**21,149.1**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 59.

** excluding derivatives which are part of a hedging relationship

*** Net obligations pursuant to IAS 19 are recognised with their average term

The ICS in the accounting process

General

The Internal Control System (ICS) is an integral part of our risk management system. The requirements pursuant to section 289 para. 5 and section 315 para. 2 German Commercial Code (HGB) relating to the explanation of the main features of the internal control and risk management system with regard to the accounting process are to be fulfilled here.

The ICS with regard to the accounting process takes into account the principles, procedures and measures to guarantee the observance of all the statutory requirements and the provisions of the articles of association to this effect. It ensures that a true and fair view of the company's assets and liabilities, along with its financial position and earnings situation, determined in accordance with generally accepted accounting principles is presented. The controls implemented shall guarantee with reasonable assurance that the individual and consolidated financial statements are drawn up in compliance with the provisions.

Through the establishment and further development of our internal control system, adequate, but not absolute certainty with respect to the fulfilment of the control targets can be achieved. This means on the one hand that the establishment of internal controls is determined by their cost:benefit ratio. On the other, the implementation of the ICS by our employees entails the risk of human error when executing activities. Furthermore, errors can arise with respect to estimates or the exercise of discretionary powers. Misstatements in the annual financial statements cannot therefore be uncovered or prevented with absolute certainty.

We define an issue as material if the assessment of the annual financial statements by the reader of the financial report and the quality of the accounting information were to be impaired by the absence of this information and if the picture given of the company's assets and liabilities, along with its financial position and earnings situation, were incorrect.

The Internal Control System at the company level is documented comprehensively and examined and updated annually within the scope of the requirements under the US Sarbanes Oxley Act (SOX), which is indirectly applicable to us as well through the listing of the HSBC shares in New York. HSBC Trinkaus follows the principles of responsible company management and company monitoring as laid down in the German Corporate Governance Code. Pursuant to section 161 German Stock Corporation Act (AktG) the Management Board and Supervisory Board declare on an annual basis that the recommendations of the "Government Commission on the German Corporate Governance Code" were and are complied with and which recommendations were or are not applied and for what reason. This declaration is part of the corporate government statement pursuant to section 289 a German Commercial Code (HGB) which is published on our homepage (www.hsbctrinkaus.de).

In addition, we have formulated a code of conduct in writing which expresses our understanding of values and our behavioural standards to which the Management Board and all employees have committed themselves in writing. We have also laid down a detailed compliance concept in writing.

Organisational structure

The organisational structure of the Bank including the Support Functions and the responsibilities within the Management Board are presented in the chapter entitled "The Business Divisions". Accounting at the Bank is primarily the responsibility of the Support Functions Accounting and Controlling.

The Support Function Accounting is responsible for accounting according to HGB (individual financial statements of the parent company) and according to IFRS (consolidated financial statements of the HSBC Trinkaus Group and subgroup financial statements for HSBC Bank plc, London). The tax department, the accounting of the main German subsidiaries as well as regulatory reporting are also assigned to the Support Function Accounting.

The Support Function Controlling is responsible for the internal Management Information System (MIS) which consists essentially of profit contribution accounting, cost centre accounting, customer costing as well as planning and budgeting.

The Support Function Market Risk Control (MRC) is responsible for determining the market and fair values of financial instruments. Where available, market prices publicly quoted on an active market are taken as a base, otherwise the values are determined on the basis of recognised valuation methods. The prices determined in this way are included in the back office and accounting systems via automated interfaces on a same-day basis. The selection of the data sources used as well as the assignment of the valuation parameters used and the valuation methods to be applied is carried out by Market Risk Control independently of trading. Essential matters relating to valuation are discussed in the monthly Valuation Committee meetings. The Chairman of the Committee is the Management Board member responsible for Accounting. Further members include the heads of MRC and Accounting as well as the Chief Operating Officer Markets as the representative of the trading departments.

The company's annual financial statements and management report as well as the consolidated financial statements and group management report are drawn up by Accounting and the Management Board. The key figures of the annual financial statements and the consolidated financial statements are discussed in the February meeting of the Supervisory Board. In a second meeting the annual financial statements and the management report as well as the consolidated financial statements and the group management report are approved by the Supervisory Board and hence adopted. On the basis of the adopted Annual Financial Statements the Annual General Meeting passes a resolution over the appropriation of profit available for distribution.

The annual financial statements including the management report as well as the consolidated financial statements including the group management report and the interim reports are published electronically in the Federal Gazette (Bundesanzeiger).

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt was Chairman of the Audit Committee until 31 December 2009. Further members at this point in time were Harald Hörauf, Eggstätt, and Mark McCombe, Hong Kong.

The external auditors are elected at the Annual General Meeting for the current financial year. The external auditors are appointed by the Audit Committee of the Supervisory Board under the provisions of section 318 ff. German Commercial Code (HGB). In addition, the external auditors explain their audit programme together with the main points of the audit and prove their independence in an Audit Committee meeting. In a further Audit Committee meeting the external auditors explain their main audit procedures and findings. At the meeting of the Supervisory Board at which the annual financial statements are adopted, the external auditors explain their main audit procedures and findings to the entire Supervisory Board.

In accordance with the provisions of the Minimum Requirements for Risk Management (MaRisk) published by the Federal Financial Supervisory Authority (BaFin), the internal audit department examines the effectiveness and appropriateness of the Risk Management and Internal Control System on a risk-oriented and process-independent basis. In order to carry out its duties, the internal audit department has the right to full and unlimited information regarding all processes and IT systems used.

IT systems

The financial statements of HSBC Trinkaus & Burkhardt AG according to HGB as well as the MIS are based substantially on integrated accounting. This involves a self-developed mainframe programme package which essentially provides data and interim results for the daily, monthly and annual financial statements including the income statement as well as for cost centre accounting and customer costing. Integrated accounting guarantees that there is a close connection between accounting and MIS. Accounting according to IFRS for HSBC Trinkaus & Burkhardt AG is also featured in integrated accounting via separate company codes.

Various input systems for settling the different business transactions transfer the accounting records for these business transactions (machine registers) to integrated accounting automatically. The settlement of the business transactions and therefore the utilisation of the input systems is carried out in the various specialised back-office areas on a decentralised basis (e.g. securities transactions in GEOS by HSBC Transaction Services, exchange-traded derivatives in Rolfe & Nolan by Treasury and Derivatives Operations etc.). Manual registers are required only in exceptional cases.

Accounting entry programmes developed by the Bank itself as well as individual data processing programmes (Microsoft Excel and Access) are also used to complement integrated accounting. The programmes are used to determine accounting data which are then transferred to integrated accounting. They consist essentially of systems for entering and paying incoming invoices, for drawing up outgoing invoices and entering simple booking records as well as applications for account reconciliation, investment accounting and the presentation of the development of fixed assets and summary of movements in provisions.

Accounting for the subsidiaries is carried out in each case in a standard software solution provided by an external software supplier and serves primarily the preparation of the individual financial statements of the respective subsidiary according to commercial law.

Consolidation is based substantially on TuBKons, an access programme package developed by the Bank itself, and the data stored in a DB2 system. Debt, expense and income as well as capital consolidation and the elimination of intercompany gains is carried out in TubKons based on the import from integrated accounting, the various import systems with the required transaction details as well as the accounting carried out for all main subsidiaries (including the special funds liable to consolidation). Reconciliation from HGB to IFRS figures is also carried out for the subsidiaries and all group valuation measures presented.

General structure of the ICS

The main principles for the structure of the ICS with regard to the accounting process are:

(a) Functional separation
Customer contact and business transactions are clearly separated from all downstream processes in operational terms up to Management Board level. In addition to the internal audit department, the settlement control department is of particular importance with regard to the accounting process. Settlement control is responsible among other things for the reconciliation of all loro and nostro accounts as well as reconciling all trade confirmations received with the trade confirmations of the various back-office areas. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(b) Principal of dual control and authority rules
Each entry must be verified by a second person. The permissions for this are geared towards the experience and expertise of the individual employees and regularly updated in the IT systems. They are examined by the respective divisional heads on a regular basis.

(c) Professional skills of the employees
The quantitative and qualitative staffing in Accounting and Controlling is appropriate. The employees have the required knowledge and experience depending on their area of responsibility. This is examined within the scope of the annual planning process and considered accordingly in both the staff appointment scheme and the training budget.

(d) Access authorisations
Differentiated access authorisations have been established for integrated accounting as well as all other main systems in accounting to protect against unauthorised access.

Specific components of the ICS

In addition to the general principles, specific measures and controls have also been established with respect to the requirements of the accounting process.

(a) Accounting guidelines
The statutory requirements and relevant accounting standards are specifically defined in accounting guidelines and workflow descriptions which are examined regularly and updated if required. These also include detailed guidelines of the HSBC Group which are laid down in writing in several manuals and updated regularly. The observance of the workflow descriptions is part of the examination of the specialist division responsible in each case by the internal audit department by way of standard.

(b) Plausibility checks for all registers
During the processing of a register, various plausibility checks are carried out by the system. The plausibility checks lead either to the entry being rejected or to entries with default settings or to an error log which is processed by settlement control the next day.

(c) Reconciliation of the back-office systems
All derivatives and money market transactions are reconciled between the front and back-office systems by a separate coordination group on a daily basis. Any differences are clarified the next day.

(d) Depositary reconciliation
Reconciliation with all depositaries is carried out on a monthly basis for all securities portfolios. In addition, daily reconciliation is carried out between the securities nostro system and the corresponding general ledgers for proprietary holdings. The results of reconciliation are reported to the Management Board member responsible for accounting on a monthly basis.

(e) Internal accounts and securities accounts
All balances and holdings on internal accounts and securities accounts are broken down in detail and confirmed by the responsible divisions on a monthly basis. Particular attention is paid to the settlement and clearing accounts which are also subject to unannounced examinations. The results of reconciliation are reported on a monthly basis to the Management Board member responsible for accounting.

(f) Reconciliation with affiliated companies
All transactions within the HSBC Trinkaus Group are consolidated on a monthly basis. Any differences arising are recorded and clarified. Transactions with other companies from the HSBC group are presented separately in the monthly report to HSBC and automatically consolidated by HSBC. Any substantial differences arising are reported to both companies concerned on a quarterly basis and are to be promptly clarified.

(g) Account statements and confirmations of open transactions
Settlement control sends out annual account statements for all customer accounts. For open transactions, in particular OTC derivatives (including foreign exchange transactions), the internal audit department separately reconciles all outstanding transactions with a random sample of counterparties on an annual basis.

(h) Reconciliation between Accounting and Controlling
As the preparation of the financial statements and the MIS are collectively based on integrated accounting, the monthly reconciliation between Controlling and Accounting is a central component of the ICS with regard the accounting process. This ensures that all substantial errors are quickly recognised and corrected.

The administrative expenses according to the income statement are allocated in MIS within the scope of cost centre accounting to the divisions incurring the costs and compared with the budgeted figures. Larger deviations are to be explained by the responsible divisional heads at least on a quarterly basis.

Net interest and net fee income according to the income statement are also reconciled with customer costing. Customer costing is made available to the customer service officers and the divisional heads of the divisions servicing customers on a monthly basis. It is the main control instruments for all divisions servicing customers. Implausible and conspicuous features are promptly clarified between Controlling and the customer division.

(i) Reconciliation between Market Risk Control und Accounting
Market Risk Control determines the trading result per trading desk on a daily basis. The results are reconciled in Accounting each month with the revenues of the trad-

ing departments in accordance with profit contribution accounting. All differences are analysed down to instrument level, the main differences being promptly discovered and corrected.

(j) Analysis of special business transactions
The customer-servicing divisions report all special business transactions to Accounting and Controlling on a monthly basis in order to ensure that they entered correctly and promptly in accounting. Accounting also analyses all main items under other net other operating income and expenses and income from financial assets on a monthly basis.

(k) Plausibility checks
All general ledgers of the income statement are checked for plausibility in an initial step on a monthly basis by comparing them with prior periods and with the budgeted figures. Any irregularities and discrepancies are clarified immediately in consultation with Accounting and Controlling.

(l) Overall reconciliation of the income statement
The preliminary monthly result is discussed between the responsible Management Board member and the heads of Accounting and Controlling before the accounts are closed. Direct contact between all the main decision-makers is an important element of the internal control process in a Bank of our proportions. Any implausibilities are promptly discussed and clarified. All points still open are also discussed and the responsibility and time frame for clarifying and dealing with them agreed.

(m) Discussion of the monthly results by the Management Board
Immediately after completion of the monthly income statement the results are sent to the Management Board member responsible for accounting. He forwards the key data of the monthly statement together with his comments to the other Management Board members for discussion in the next Management Board meeting. Discussion by the Management Board guarantees the initial monthly plausibility check of the group figures by the overall Management Board. In addition, all Management Board members receive a detailed monthly report drawn up and commented on by Controlling, which includes the trend in revenues and costs for both the Group as a whole and the main subsidiaries. The revenues and costs are also shown by product and business segment. An additional quarterly report is drawn up by Controlling in the quarterly results, which makes the revenues and costs of all subsidiaries broken down into private and corporate banking business as well as the revenues and costs of all product specialists in the individual client groups transparent for all Management Board members.

Staff

Number of employees and persons receiving pensions

We had a total of 2,280 employees at the end of 2009, compared to 2,238 at the end of the previous year. This represents an increase of 1.9 %. At the end of 2009 we were paying retirement, widow's and orphan's pensions to 556 recipients, compared to 544 at the end of 2008.

Training activities

A total of 35 highly motivated apprentices are currently working at the Bank towards professional qualifications in banking, office communication and IT.

In addition, six are working towards investment fund specialist qualifications at our HSBC INKA subsidiary and a further six towards professional office communication qualifications at HSBC Transaction Services GmbH (formerly ITS).

We are proud to report this year as well that a total of 20 apprentices at the HSBC Trinkaus Group successfully completed their training in 2009. One apprentice passed his final exams with the grade of "very good". We remain strongly committed to the qualified training of our employees.

Advanced training

We strive to constantly offer our clients major expertise and high quality with respect to our advisory service. The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore continue to make extremely high demands of our job applicants, also in view of future demographic trends. Only with specially qualified and motivated personnel can we meet our clients' challenging expectations in the long term. We therefore pay particular attention to the further training of our employees, which is developed on a needs-oriented and targeted basis. For example, we help them to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank. We also offer them leadership and acquisition seminars, coaching as well as communication and presentation training. Our various advanced training activities are rounded off by specialised Bachelor and Master occupational study and training courses, such as Chartered Financial Analyst (CFA) or Certified Financial Planner (CFP), as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). The selection of vocational training measures is subject to regular quality control and the recruitment of suitable trainers is geared towards the special requirements made of our employees in the various areas of our business.

Performance-related remuneration

Performance-related remuneration remains of major importance for motivating our staff regardless of whether they are tariff or non-tariff employees. In this context, incentives in the form of variable remuneration components which are in keeping with the Bank's long-term goals and strategies play an important role for our managerial staff.

Thanks

The Bank continues to owe its success to the special commitment and outstanding performance of our employees, and we would like to take this opportunity to thank them all. We would also like to thank the Employees' Council and the staff representatives on the Supervisory Board for their constructive and trusting cooperation once again over the past financial year.

Shareholders and Shares

Capital

At 31 December 2009 the Bank's issued share capital was unchanged at € 70.0 million divided into 26.1 million no-par value shares. 52 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

All shares have uniform rights and are bearer shares. Each no-par value share carries one vote. The Management Board knows of no limitations affecting voting rights or the transfer of shares.

As of the balance sheet date, HSBC Holdings plc, London, indirectly held an unchanged share of 78.6 % of this share capital and Landesbank Baden-Württemberg in Stuttgart directly held an unchanged share of 20.3 %.

Share price and market value

During 2009 our share price rose 10.1 % to € 98.00. The lowest fixing price of the year was € 77.00 and the highest € 100.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.60	317.50
31.12.1990	22,000,000	19.80	435.30
31.12.1995	23,500,000	30.60	718.50
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.80
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80

* Adjusted for 1 for 10 stock split on 27 July 1998.

Dividends

For the 2009 financial year we propose paying a dividend of € 2.50 per share (2008: € 2.50 per share). With a dividend total of € 65.3 million we wish to ensure that our shareholders participate suitably in the profits we generated in 2009.

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Notes)	31.12.2009	31.12.2008	Change	
				in €m	in %
Cash reserve	(20)	177.0	139.5	37.5	26.9
Loans and advances to banks	(5, 21)	2,429.4	2,979.7	–550.3	–18.5
Loans and advances to customers	(5, 22)	2,687.5	4,082.6	–1,395.1	–34.2
Net loan impairment provision	(7, 23)	–42.9	–21.4	–21.5	> 100.0
Trading assets	(5, 24)	10,005.7	12,482.6	–2,476.9	–19.8
Financial assets	(5, 27)	3,126.1	2,118.8	1,007.3	47.5
Interests in associates	(26)	10.6	10.1	0.5	5.0
Property, plant and equipment	(10, 27)	83.3	81.1	2.2	2.7
Intangible assets	(11, 27)	44.1	56.0	–11.9	–21.3
Taxation recoverable	(15, 28)	13.0	17.5	–4.5	–25.7
current		13.0	13.0	0.0	0.0
deferred		0.0	4.5	–4.5	–100.0
Other assets	(29)	194.8	259.2	–64.4	–24.8
Total assets		**18,728.6**	**22,205.7**	**–3,477.1**	**–15.7**

Liabilities in €m	(Notes)	31.12.2009	31.12.2008	Change	
				in €m	in %
Deposits by banks	(5, 32)	2,697.6	2,709.1	–11.5	–0.4
Customer accounts	(5, 33)	9,062.1	11,592.8	–2,530.7	–21.8
Certificated liabilities	(34)	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	5,196.7	6,152.9	–956.2	–15.5
Provisions	(14, 36)	152.2	117.4	34.8	29.6
Taxation	(15, 37)	67.7	85.1	–17.4	–20.4
current		61.1	81.5	–20.4	–25.0
deferred		6.6	3.6	3.0	83.3
Other liabilities	(38)	95.3	108.2	–12.9	–11.9
Subordinated capital	(39)	384.4	458.7	–74.3	–16.2
Shareholders' equity	(40)	1,062.5	955.0	107.5	11.3
Share capital		70.0	70.0	0.0	0.0
Capital reserve		216.9	218.5	–1.6	–0.7
Retained earnings		654.7	566.8	87.9	15.5
Consolidated profit available for distribution		120.9	99.7	21.2	21.3
Minority interests	(41)	0.1	16.5	–16.4	–99.4
Total equity and liabilities		**18,728.6**	**22,205.7**	**–3,477.1**	**–15.7**

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

Income statement in €m	(Note)	2009	2008	Change	
				in €m	in %
Interest income		235.1	397.6	–162.5	–40.9
Interest expense		91.8	258.1	–166.3	–64.4
Net interest income	(42)	143.3	139.5	3.8	2.7
Net loan impairment and other credit risk provisions	(7, 44)	22.4	4.5	17.9	>100.0
Share of profit in associates	(43)	0.6	0.5	0.1	20.0
Fee income		575.1	606.5	–31.4	–5.2
Fee expenses		228.9	258.9	–30.0	–11.6
Net fee income	(45)	346.2	347.6	–1.4	–0.4
Net trading income	(46)	123.0	87.1	35.9	41.2
Administrative expenses	(47)	400.8	384.2	16.6	4.3
Income from financial assets	(48)	–24.0	–50.0	26.0	52.0
Net other income/expenses	(49)	–2.2	2.2	–4.4	>100.0
Profit before taxes		**163.7**	**138.2**	**25.5**	**18.5**
Tax expenses	(50)	54.5	48.6	5.9	12.1
Net profit for the year		**109.2**	**89.6**	**19.6**	**21.9**
Group profit/loss attributable to minority interests		1.6	–1.6	3.2	>100.0
Group profit/loss attributable to HSBC Trinkaus shareholders		107.6	91.2	16.1	18.0

Reconciliation from Net Income to Comprehensive Income

in €m	2009	2008
Net profit for the year	109.2	89.6
Gains/losses not recognised in the income statement	62.1	–41.2
of which from financial instruments	61.1	–28.7
of which from actuarial results	1.1	–12.5
of which from currency conversion	–0.1	0.0
(Total) comprehensive income	**171.3**	**48.4**
Attributable to:		
Minority interests	1.6	–1.6
HSBC shareholders	169.7	**50.0**

Cf. Note 40 on the development of unrealised gains/losses from financial instruments.

Earnings per share

	2009	2008
Net income after tax in €m	109.2	89.6
Minority interests in €m	1.6	–1.6
Net profit after tax and minority interests in €m	107.6	91.2
Average number of shares in circulation in million	26.1	26.1
Earnings per share in €	4.12	3.49
Undiluted earnings per share in €	4.12	3.49

As in 2008, there were no option and conversion rights outstanding for the purchase of shares in the 2009 financial year. There was therefore no calculable dilution effect.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 18) had a material impact on earnings per share. The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2008: € 2.50 per share).

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Consolidated profit available for distribution	Shareholders' equity	Minority interests	Total including minority interests
At 31 December 2007	**70.0**	**216.9**	**486.7**	**195.1**	**968.7**	**0.0**	**968.7**
Dividend distribution				−65.3	**−65.3**		**−65.3**
Retention from 2007 profit available for distribution			121.3	−121.3	**0.0**		**0.0**
Addition from net profit for the year				91.2	**91.2**	−1.6	**89.6**
Changes in the group of consolidated companies						18.1	**18.1**
Share-based payments		1.6			1.6		1.6
Other changes			−41.2		**−41.2**		**−41.2**
At 31 December 2008	**70.0**	**218.5**	**566.8**	**99.7**	**955.0**	**16.5**	**971.5**
Dividend distribution				−65.3	**−65.3**		**−65.3**
Retention from 2008 profit available for distribution			20.9	−20.9	**0.0**		**0.0**
Addition from net profit for the year				107.6	**107.6**	1.6	**109.2**
Changes in the group of consolidated companies				−0.2	**−0.2**	−18.0	**−18.2**
Share-based payments		−1.6	4.9		**3.3**		**3.3**
Other changes			62.1		**62.1**		**62.1**
At 31 December 2009	**70.0**	**216.9**	**654.7**	**120.9**	**1,062.5**	**0.1**	**1,062.6**

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2009	2008
Net profit for the year	109.2	89.6
Non-cash items in net profit, and adjustments to reconcile net profit with net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	88.1	–10.8
Net profit from the sale of investments and property, plant and equipment	0.6	0.3
Other adjustments (net)	–96.2	–48.8
Sub-total	101.7	30.3
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	550.3	1,137.3
Loans and advances to customers	1,394.4	193.0
Securities held for trading	1,520.7	–2,381.2
Other assets	–900.8	–691.3
Liabilities	–2,563.0	1,486.5
Other liabilities	–21.8	–1.8
Total adjustments	–20.2	–257.5
Interest receipts	232.9	396.9
Dividend receipts	2.2	0.6
Interest payments	–91.8	–258.2
Income taxes paid	–32.7	–20.3
Cash flow from operating activities	**192.1**	**–108.2**
Proceeds from the sale of		
Financial assets	0.0	3.3
Property, plant and equipment	4.5	1.0
Payments for the acquisition of		
Financial assets	–0.9	–0.8
Property, plant and equipment	–18.6	–22.8
Cash flow from investing activities	**–15.0**	**–19.3**
Dividends paid to HSBC Trinkaus shareholders	–65.3	–65.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	–74.3	0.0
Cash flow from financing activities	**–139.6**	**–65.3**

Cash and cash equivalents at beginning of period	**139.5**	**332.3**
Cash flow from operating activities	192.1	–108.2
Cash flow from investing activities	–15.0	–19.3
Cash flow from financing activities	–139.6	–65.3
Cash and cash equivalents at end of period	**177.0**	**139.5**

Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2009 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration.

Confirmation of the financial statements is carried out in accordance with the legal provisions and – based on a proposal by the Management Board – is on principle the function of the Supervisory Board. Following approval, the Annual General Meeting passes the resolution on the appropriation of distributable profit.

To enhance transparency, all figures have been reported in millions of euros.

The consolidated financial statements were prepared and valued on a going-concern basis.

The consolidated financial statements include the balance sheet, the income statement, the statement of changes in equity, cash flow statement, and the notes.

At the end of 2009, HSBC Holdings plc had an indirect interest of 78.6 % in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on Accounting, Valuation and Consolidation Methods

1 Scope of Consolidation

The consolidated financial statements include as subsidiaries all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt AG, directly or indirectly holds the majority of the voting rights or over which it can exercise a controlling influence.

HSBC Global Asset Management (Switzerland) AG, which is headquartered in Zurich, was established in the financial year under review as a joint venture with HSBC Global Asset Management (Switzerland) AG, and recognised as equity on the balance sheet for the first time.

Grundstücksgesellschaft Kö 2 GmbH, Düsseldorf, and HSBC Trinkaus Bond Portfolio GmbH, Frankfurt am Main, were merged with HSBC Trinkaus Real Estate GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf, respectively, and are therefore no longer included within the scope of consolidation.

In addition, we have fully consolidated two special funds and one closed-end property fund (2008: two) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 63.

2 Consolidation Principles

In accordance with IAS 27 and 28, the accounting policies were applied consistently throughout the Group.

Differences arising from the consolidation of investments are calculated on the basis of the value of the new companies on the date of acquisition.

Intra-group claims and liabilities, income and expenses have been offset against each other; inter-company profits have been eliminated.

3 ▸ Foreign Currency Translation

For the purposes of foreign currency translation, pursuant to IAS 39 in conjunction with IAS 21, we distinguish between monetary and non-monetary financial instruments. Revaluations resulting from currency translation of monetary items are always recognised in the income statement. In the case of non-monetary items, the treatment of currency results depends on the way in which the other market-price-related revaluation results of the corresponding instrument are treated.

Income and expenses resulting from the translation of foreign currencies are entered under the same item in the income statement as the corresponding income and expenses from the respective underlying transaction.

Foreign exchange forwards are translated at the relevant forward rate on the balance sheet date. Spot foreign exchange trades, and assets and liabilities denominated in foreign currencies, are translated at the official reference rate of the European Central Bank or at other suitable spot rates of the last trading day of the year.

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. The equity capital available (subscribed capital, profit, capital, revaluation surplus) at the time of initial consolidation must be converted at the reporting rate (closing rate) on the date of initial consolidation and maintained at a constant level. Additions to retained earnings must be converted by the conversion rate of the respective year in which the corresponding net income was generated. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings.

Translation recognised in the income statement had no significant impact on the 2009 financial year, as in the previous year. Translation differences without effect on the income statement amounted to –€ 0.2 million (2008: € 0.0 million) and relate to a closed-end property fund in Australia as well as to a subsidiary in Hong Kong (cf. Note 63).

4 ▸ Business Combinations

IFRS 3 defines the application of the acquisition method for business combinations in which the buyer takes control of the company acquired. After the buyer's procurement costs are calculated, the assets and liabilities acquired must be valued at their fair value at the time of acquisition, within the scope of the business combination.

The extensive recognition and measurement provisions of IFRS 3 for tangible and intangible assets purchased, as well as for contingent liabilities and other items on the balance sheet, are applied. This also includes assets (such as client contracts) that did not qualify previously for recognition in financial statements.

If goodwill is to be recognised, because the purchase costs exceed the fair value of the net assets acquired, it must be reviewed for impairment at least once a year (impairment test) in accordance with IAS 36.

5 ▸ Financial Instruments

Recognition

HSBC Trinkaus recognises financial instruments in the balance sheet for the first time when the Group becomes a contractual party to the corresponding agreement, in accordance with IAS 39. Recognition for spot transactions (regular way contracts) is uniform on the trading day (trade date accounting), otherwise on the settlement date.

Financial instruments are derecognised fully, provided the Group has transferred the contractual rights to receipt of the cash flows from the financial instrument, plus all material risks and opportunities under such assets. If all opportunities and risks are not transferred, recognition is at the amount of the residual risk position, if we continue to exercise control over the financial instrument (continuing investment).

Transferred financial instruments, which do not qualify for derecognition, comprise mainly interest-bearing securities pledged as collateral within the scope of repurchase transactions or shares borrowed under securities lending transactions. Owing to the legal obligation to retransfer securities, all opportunities and risks incurred in relation to the genuine repurchase transactions remain with the transferor. The corresponding risks are: counterparty risk, foreign exchange risk and market risk. The same principle applies to securities lending transactions.

Reporting

Reporting, as well as the corresponding measurement classes and measurement categories, are included in the following overview.

Measurement class (IFRS 7)	Balance sheet item	Measurement category (IAS 39)
Measurement at amortised cost	Cash reserve	
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
	Certificated liabilities	Other liabilities
Measurement at fair value	Financial assets	Available for sale
	Trading assets/liabilities	Held for trading
Derivatives in hedging relationships	Trading assets/liabilities	
Off-balance-sheet business (IAS 37)	Contingent liabilities	
	Other liabilities	

IFRS 7 redefines the disclosure of financial instruments and groups the reporting rules together in one standard. Furthermore the standard contains disclosure requirements of risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

Measurement

All financial instruments are measured at fair value at acquisition. This generally equates to the transaction price initially, i.e. the fair value of the consideration. In addition, we allocate all financial instruments at initial recognition to the categories as defined in IAS 39, which are decisive for the subsequent measurement. We have implemented the rules as follows at the HSBC Trinkaus Group:

(a) Financial Assets or Liabilities at Fair Value through Profit or Loss

This category differentiates between financial instruments that are either classified irrevocably as held-for-trading (HfT) or at fair value through profit or loss upon initial recognition (fair value option). As in the previous year, we did not exercise the fair value option, so that the corresponding sub-category is not filled at present.

Besides all derivatives – including embedded derivatives which are required to be separated – financial instruments in the held-for-trading category include all positions which have been acquired for the purpose of generating short-term gains from changes in the market price.

As a rule, subsequent measurement is at fair value, where publicly traded market prices, if available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, such as those implemented by external software providers in the respective software. These are mainly present value methods and option price models. We have cooperated closely with HSBC to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters imposed are as differentiated as possible – for example, according to lifetimes, strike prices, etc. The choice of data sources used plus the allocation of measurement parameters and the applicable measurement method for the financial instruments in question are independent of trading. Provided all material measurement parameters cannot be observed for specific products, the measurement results from new transactions (day-1 profit or loss) in these products are not recognised in the income statement until maturity or when the position is closed out. There is no distribution over the transaction term. All realised gains and losses, as well as the unrealised measurement results, are reported under net trading income.

(b) Held-to-Maturity Investments
As in the previous year, no financial instruments were allocated to the held-to-maturity category.

(c) Loans and Receivables
The "loans and receivables" category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. Financial instruments are the exception here, which, owing to the short-term intention of the category to resell the assets, are allocated to the held-for-trading category. The corresponding loans and receivables are measured at amortised cost.

Discounts and premiums are recognised proportionately within interest income. Impairments on loans and receivables are reported under net loan impairment provision.

(d) Financial Assets Available for Sale
The "available-for-sale" category includes on the one hand all financial instruments and is on the other the residual variable of the financial assets; in other words, it also includes the financial instruments not allocated to any of the three other measurement categories of IAS 39. These consist of securities (including registered bonds), acquired loans and advances and investments.

Subsequent measurement of financial instruments in this category is at market value. The measurement methods are identical to those used for the measurement of held-for-trading financial instruments. Changes in value vis-à-vis the net acquisition costs are reported under shareholders' equity with no effect on the income statement.

There are no sufficient measurement parameters for holdings in partnerships and specific unlisted public limited companies: on the one hand, no price is quoted for these financial instruments in an active market. On the other, it is impossible to reliably determine the market value, since the volatility of possible securities is too great or no probability of event can be attributable to the individual securities. These holdings are measured at amortised cost.

In the event of a reduction in value due to counterparty or sovereign risk (impairments), (direct) write-downs to the lower market value are made. The impairment test is carried out on the occasion of every interim report. The impairments are reported in income from financial assets. Objective evidence of impairment on a debt instrument is included as income immediately. Write-ups affecting the income statement up to maximum amortised cost are recognised as soon as the reason for the write-down no longer applies. Equity instruments are written down if the market value is significantly or permanently below original cost. A decline in the fair value of at least 20 % below the original cost is considered significant. If the fair value has fallen permanently below original costs in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the market value in both cases. If the reasons for impairment cease to exist for equity instruments – unlike debt instruments – no write-up with effect on the income statement is made. Rather, the corresponding write-ups are recognised directly in retained earnings.

(e) Other Liabilities
The other liabilities category includes all financial liabilities not allocated to the fair value category. They are therefore not measured at fair value through profit and loss, but at amortised cost: as a rule, other liabilities are carried at their settlement amount. Non-interest-bearing liabilities, such as zero coupon bonds, are measured at their interest rate as at the balance sheet date.

(f) Reclassification
As in the previous year, the option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

6 ▸ Hedge Accounting

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, HSBC Trinkaus applied the provisions for the reporting of hedge relationships in accordance with IAS 29 (hedge accounting) for the first time in the year under report. The market value of the fixed-income bonds (hedged item) depends on changes in the market interest rate (e.g. five-year rate) on the one hand and on liquidity and risk premiums for the issuer (so-called spreads) on the other. HSBC Trinkaus hedges against market interest rate-induced volatility (designated portion of the hedged item) by concluding interest rate swaps with other banks (hedging instrument), which largely compensates for the fluctuations in the market value of the bonds. This hedging of market value fluctuations (so-called fair value hedges), the interest rate-induced volatility plus the interest rate swaps of the fixed-income bonds are recognized in the income statement in accordance with IAS 39. The spread-related market value fluctuations of the bonds are not hedged (unhedged portion of the hedged item). These are transferred to retained earnings in line with the subsequent measurement of available-for-sale securities, without effect on the income statement.

The reporting of hedging relationships in the balance sheet in accordance with IFRS is linked to a series of requirements that are largely related to documentation of the hedging relationships and effectiveness of the hedging measures. The following data in particular must be documented at the time of entering into a hedging relationship (inception of a hedge): the identification of the hedge and the underlying transaction, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

HSBC Trinkaus uses a linear regression model to assess the effectiveness of the hedge transaction. The model examines the linear correlation between the cumulative changes in value in the underlying transaction and the cumulative changes in value of the hedge transaction. The so-called coefficient of determination (R-square) provides information about the direction of the correlation through the quality of the regression and the steepness of the regression straight line (slope).

The proof of effectiveness requires higher expected effectiveness for a hedging relationship in the future (prospective effectiveness) on the one hand. Proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness) on the other. Sufficient effectiveness within the scope of the prospective test requires an R-square of greater than 0.9 and a slope of between – 0.9 and – 1.1. An R-square of greater than 0.8 and a slope of between – 0.8 and 0 1.2 is adequate for the retrospective effectiveness test.

7 ▸ Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions on the one hand as net loan impairment provision on the assets side and on the other as provisions for credit risks on the liabilities side. The item net loan impairment and other credit risk provisions distinguishes between individually assessed impairments/provisions on the one hand and collectively assessed impairments/provisions on the other.

Individually assessed impairments in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 rating categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on counterparty risk in the consolidated financial statements for further explanations – especially on calculating impairments/provisions.

Furthermore, impairments/provisions are created on a portfolio basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general impairment/provision will then be calculated on the basis of the respective default probabilities and economic indicators.

Where it is determined that a loan cannot be repaid, the uncollectible amount is first written off against any existing individually assessed impairments, and/or directly recognised as expense in the income statement.

8 ▸ Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities (cf. Note 35).

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet item trading assets (cf. Note 24); this facilitates more appropriate reporting. Securities purchased under agreements to resell are not reported.

The Bank does not enter into non-genuine repurchase transactions.

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions were reported under the balance sheet item trading assets or trading liabilities (cf. Notes 24 and 35).

9 ▸ Share of Profit in Associates

On the one hand, we reported the associated company SINO AG, Düsseldorf, under the share of profit in associates. Owing to SINO AG's different financial year, the figures published for the previous quarter are used in the accounting process. On the other hand, HSBC Global Asset Management (Switzerland) AG, which was established as a joint venture with HSBC Global Asset Management (France), Paris, is taken into consideration here.

10 ▸ Property, Plant and Equipment

The property, plant and equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment.

Hardware and other operational and business equipment are valued at cost less regular depreciation. The useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the expected useful life of the asset and is based on the following useful lives throughout the Group:

	Useful life in years
Hardware	3
Motor vehicles	6
Fixtures/operating facilities	10
Furniture	13
Buildings	50

Depreciation that exceeds wear-and-tear-related erosion is taken into consideration under impairments. Where the reasons cease, corresponding write-ups are made.

11 ▸ Intangible Assets

Items disclosed under intangible assets include standard software. In-house development work carried out within the scope of software projects is capitalised in accordance with IAS 38. Intangible assets are valued at purchase or production cost less regular depreciation on a straight-line basis over the expected useful life of the asset of three to ten years. In addition to regular depreciation, impairment tests are also carried out to value fixed assets (cf. Note 10).

Intangible assets also include the goodwill resulting from the acquisition of the former ITS (referred to today as HSBC Transaction Services). The goodwill is not subject to any scheduled amortisation. An impairment test is carried out instead at least once a year, in accordance with IAS 36. The enterprise value is calculated using a discounted cash flow method, where future cash flows are estimated and discounted by a market interest rate.

12 ▸ Leasing

Group companies are involved in the leasing business exclusively as lessees. All leasing contracts signed are operating lease agreements. In operating lease agreements, all risks and benefits attendant upon ownership remain with the lessor, which also carries the leased item on its balance sheet. For this reason, the Group treats lease payments as rental payments reported under administrative expenses.

13 ▸ Treasury Bonds and Shares

The Bank holds its treasury bonds only to a limited extent and, in accordance with the IFRS requirements, offsets them against the liability items arising from the issuance of bonds.

As at the end of 2009, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 78,458 treasury shares were bought at an average price of € 87.37 (2008: € 100.97) and sold at an average price of € 87.47 (2008: € 100.81). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.28 % (2008: 0.01 %) of the subscribed capital.

14 ▸ Provisions

Provisions for pensions and uncertain liabilities are reported under provisions.

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method. Within the scope of a Contractual Trust Arrangement (CTA) certain assets were transferred into a trust corporation as collateral for pension obligations and therefore qualified as plan assets within the meaning of IAS 19.7. Actuarial profits and losses from the performance of the plan assets and the pensions are reported under shareholders' equity with no effect on the income statement after the deduction of deferred taxes. The expected income from the plan assets is offset against the expected pension expenses in the income statement.

Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure.

15 ▸ Taxation Recoverable and Taxation

Current tax expenses are calculated in accordance with the tax rates applicable for each individual company. Current taxation recoverable is offset against current taxation provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when realignment of the valuations occurs. The deferred taxation is calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable or deferred taxation will be adjusted accordingly (cf. Note 51).

16 ▸ Share-based Payments

Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (one, three and five years). In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses derived from this – apportioned to the respective blocking period – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (so-called acceleration of vesting). If an existing bonus programme is modified, a distinction must be made as to whether the fair value of the approval at the time of the modification exceeds or falls short of the original fair value.

If the modified fair value exceeds the original fair value of the approval, the excess amount must be recognised in the income statement, in addition to the previous service costs over the vesting period. If the fair value is lower, the previous service costs remain unchanged; in other words, the modification is ignored.

In addition, the performance-related remuneration components for employees and the Management Board are, over a certain volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in different tranches within or at the end of the vesting period, and is generally subject to continued service for the Bank. It is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; personnel expenses are spread over the vesting period.

17 ▸ Reporting of Income and Expenses

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers, and income from financial assets. Interest expense includes expenses arising from deposits by banks and customer accounts, as well as liabilities in certificate form and subordinated capital. The Bank recognises dividends at the time of the legal creation of the dividend entitlement with an effect on the income statement.

Net fee income includes above all income from securities, foreign exchange and derivatives business, as well as from special advisory services (e.g. Investment Banking). Fee income and expenses are recognised in the income statement whenever the service is performed.

All unrealised and realised trading results are reported in net trading income. This also includes interest and dividend income alongside price gains/losses, as well as the proportional refinancing costs of the trading activities.

The results from derivatives held in the banking book are also reported in net trading income.

18 ▸ IFRS Treatment Applied

IFRS 8, Operating Segments, was published on 30 November 2006 and is obligatory for all financial statements that start on or after 1 January 2009. The new standard will essentially adopt the management approach to segment reporting and was already applied in 2008 ahead of schedule.

In September 2007, the International Accounting Standards Board (IASB) published amendments to IAS 1, Presentation of Financial Statements, which are also obligatory for financial years starting on or after 1 January 2009. These changes lead to adjustments to the statement of changes in equity, which should now show income and expenditure without effect on the income statement, that do not arise from transactions with or between shareholders, as a summary item (other changes). On the other hand, these „other changes" should now be outlined in detail in the Consolidated Statement of Comprehensive Income. The necessary changes were carried out in the year under report and the corresponding comparable figures were adjusted accordingly.

The IASB also published changes to IFRS 7, Financial Instruments: Disclosures in March 2009.

These must be applied for financial years beginning on or after 1 January 2009. They lead to extended notes on the financial instruments recognised at fair value as well as on liquidity risk. The additional reporting rules were already complied with voluntarily in part in the previous year. All other necessary changes were applied in the year under report.

The other standards or interpretations which were applied for the first time in 2009 had no material impact.

On 12 November 2009, the IASB published Standard IFRS 9, Financial Instruments. The aim of the standard is to completely revise the accounting of financial instruments in a three-part project and thus replace Standard IAS 39 applicable to date. IFRS 9 sets out the new requirements for the classification and measurement of financial assets and will have a substantial influence on HSBC Trinkaus' accounting. The adoption of the standard is mandatory for financial years starting on or after 1 January 2013. Early adoption is permitted for 2009 year-end financial statements. HSBC Trinkaus has not been able to make use of this option as the standard is still awaiting EU endorsement.

Other standards and interpretations not yet compulsory for 2009 will not have any material effect on the Bank.

19 ▸ Material Events occurring after the Balance Sheet Date

No transactions materially affecting the assets, financial position and profitability of the company took place during the period between the balance sheet date and the date on which these accounts were prepared.

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2009	31.12.2008
Cash and cash equivalents	3.6	2.8
Balances with the central bank	173.4	136.7
Total	177.0	139.5

Balances held with central banks are held mainly with the Deutsche Bundesbank and continue to be almost exclusively in euros.

The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

21 Loans and Advances to Banks

in €m	31.12.2009	31.12.2008
Current accounts	361.2	865.6
Money market transactions	1,923.8	2,049.6
of which overnight money	109.8	0.0
of which term deposits	1,814.0	2,049.6
Other loans and advances	144.4	64.5
Total	**2,429.4**	**2,979.7**
of which to domestic banks	1,442.0	1,768.0
of which to foreign banks	987.4	1,211.7

Loans and advances to banks also include our deposits within the HSBC Group. The reduction in the volume held on the current accounts is attributable to the reporting date.

22 ▸ Loans and Advances to Customers

in €m	31.12.2009	31.12.2008
Current accounts	980.9	1,481.2
Money market transactions	620.9	1,023.3
of which overnight money	79.3	190.8
of which term deposits	541.6	832.5
Loan accounts	1,063.4	1,573.5
Other loans and advances	22.3	4.6
Total	2,687.5	4,082.6
of which domestic customers	1,933.0	2,902.4
of which foreign customers	754.5	1,180.2

Based on an unchanged credit risk strategy, loans and advances to customers declined as our customers remain prudent in respect of borrowing in the current economic phase. This also impacts on receivables from syndicated loans. For this reason, some loans were repaid in full and the utilisation of some current credit lines was reduced. The decline in the volume held on the current accounts is largely attributable to the reporting date.

23 ▸ Net Loan Impairment and Other Credit Risk Provisions

Net loan impairment and other credit risk provisions are made up as follows:

in €m	31.12.2009	31.12.2008
Net loan impairment provision	42.9	21.4
Provisions for credit risks	6.8	6.8
Net loan impairment and other credit risk provisions	**49.7**	**28.2**

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. The increase is largely a result of the increase in individually assessed and collectively assessed impairments.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2009	2008	2009	2008	2009	2008
As at 1.1.	15.0	12.5	6.4	3.7	21.4	16.2
Reversals	3.5	1.0	0.0	0.0	3.5	1.0
Utilisation	0.9	0.2	0.0	0.0	0.9	0.2
Additions	18.9	3.6	7.0	3.4	25.9	7.0
Currency translation effects/ transfers	0.0	0.1	0.0	–0.7	0.0	–0.6
As at 31.12.	29.5	15.0	13.4	6.4	42.9	21.4

Provisions for credit risks developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2009	2008	2009	2008	2009	2008
As at 1.1.	**5.2**	**6.6**	**1.6**	**0.9**	**6.8**	**7.5**
Reversals	2.0	1.4	0.0	0.0	2.0	1.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	2.0	0.0	2.0	0.0
Currency translation effects/ transfers	0.0	0.0	0.0	0.7	0.0	0.7
As at 31.12.	**3.2**	**5.2**	**3.6**	**1.6**	**6.8**	**6.8**

24 ▸ Trading Assets

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	4,839.7	6,945.4
of which:		
public-sector issuers	2,294.5	2,350.4
other issuers	2,545.2	4,595.0
of which:		
listed	4,404.4	4,519.4
unlisted	435.3	2,426.0
Equities and other non-fixed-income securities	832.4	383.7
of which:		
listed	832.3	383.4
unlisted	0.1	0.3
Tradable receivables	1,917.2	2,001.6
Positive market value of derivatives	1,992.6	2,758.2
of which:		
OTC derivatives	1,538.3	2,223.4
exchange-traded derivatives	454.3	534.8
Reverse repos	72.3	72.3
Securities lending	0.3	2.1
Security in the derivatives business	346.6	319.3
Derivatives held in the banking book	4.4	0.0
Derivatives in hedging relationships	0.2	0.0
Total	**10,005.7**	**12,482.6**

The change is due primarily to the reduction in debt instruments of other banks of the HSBC Group. Debt instruments from public-sector issuers in the form of bonds and tradable receivables are largely unchanged. Tradable receivables are recognised mainly as promissory note loans and registered bonds. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 35).

The securities lending and collateral items in the derivatives trading business comprise funds that we pledged as collateral (cf. Notes 31 and 61).

25 ▸ Financial Assets

Financial assets comprise the bank's strategic positions, which are broken down as follows:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	2,567.4	1,720.1
of which:		
public-sector issuers	660.5	317.2
other issuers	1,906.9	1,402.9
of which:		
listed	2,477.2	1,591.7
unlisted	90.2	128.4
Equities	29.8	21.4
Investment certificates	145.3	142.6
Promissory note loans	277.3	127.6
Investments	106.3	107.1
Total	3,126.1	2,118.8

All financial assets are assigned to the available-for-sale category in accordance with IAS 39. The increase in bonds serves to strengthen our liquidity portfolio.

The difference between the fair value and amortised cost price is as follows:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	64.0	16.0
Equities	5.7	0.0
Investment certificates	6.7	– 12.8
Promissory note loans	18.8	15.6
Investments	40.4	35.9
Total	135.6	54.7

The recovery on both bond and equity markets has significantly increased the positive difference.

26 ▸ Share of Profit in Associates

The following table provides information on the development of share of profit in associates:

in €m	2009	2008
Book value as at 1 January	10.1	15.2
Additions	0.3	0.0
Share of results of financial year	0.6	0.5
Elimination of interim result	0.0	0.0
Dividend distribution	– 0.4	– 0.8
Disposals	0.0	– 4.8
Book value as at 31 December	10.6	10.1

In addition to the associated company SINO AG, Düsseldorf, the participating interest in the HSBC Global Asset Management (Switzerland) AG, Zürich, joint venture was also consolidated at equity in the 2009 financial year. The market value of the retained SINO AG shares amounted to € 6.3 million as at the balance sheet date (2008: € 5.8 million). All in all, the assets and the liabilities of the companies consolidated at equity amount to € 10.2 million and € 7.0 million respectively, on profit before taxes of € 4.0 million.

27 Investment Overview

in €m	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2009	94.3	62.0	156.3	95.5
Increases	0.2	14.4	14.6	3.8
Disposals	2.5	6.0	8.5	0.0
Acquisition costs as at 31.12.2009	92.0	70.4	162.4	99.3
Depreciation as at 01.01.2009	35.5	39.7	75.2	39.5
Scheduled depreciation	1.3	8.5	9.8	9.5
Non-scheduled depreciation	0.3	0.0	0.3	6.2
Depreciation of reversals	0.9	5.3	6.2	0.0
Depreciation as at 31.12.2009	36.2	42.9	79.1	55.2
Carrying amount as at 31.12.2009	**55.8**	**27.5**	**83.3**	**44.1**
Carrying amount as at 31.12.2008	**58.8**	**22.3**	**81.1**	**56.0**

As in the previous year, foreign currency translation did not affect property, plant and equipment values.

28 Taxation recoverable

in €m	31.12.2009	31.12.2008
Current taxation recoverable	13.0	13.0
Deferred taxation recoverable	0.0	4.5
Total	**13.0**	**17.5**

Current taxation recoverable relates predominately to domestic taxes.

29 Other Assets

Other assets of € 194.8 million (2008: € 259.2 million) include one building (2008: two) with a book value totalling € 128.8 million (2008: € 154.7 million), which is marketed within the framework of a closed-end property fund. In this context, interest on borrowing of € 4.8 million (2008: € 9.3 million) was capitalised.

Additionally, this item predominately includes excess cover from our CTA of € 18.7 million (2008: € 16.5 million) and other taxes of € 11.9 million (2008: € 18.4 million).

30 Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	126.9	145.5
Profit-participation certificates	6.7	22.1
Total	133.6	167.6

31 Repurchase Agreements and Securities Lending

The following overview shows the securities we pledged and which cannot be written off in accordance with IAS 39, as well as the associated financial liabilities.

In addition to treasury securities, we also pledged securities that we had previously received within the scope of securities lending transactions and repurchase agreements. All of the transferred securities are reported under trading assets.

in €m	31.12.2009		31.12.2008	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	38.0	11.4	47.5	20.9
Total	38.0	11.4	47.5	20.9

The following table provides an overview of the securities received:

in €m	31.12.2009		31.12.2008	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	88.9	72.3	86.9	72.3
of which may be sold or pledged	88.9		86.9	
of which are already sold or pledged	0.0		0.0	
Securities lending transactions	69.5	0.3	221.4	2.1
of which may be sold or pledged	60.9		157.5	
of which are already sold or pledged	8.6		63.9	
Total	158.4	72.6	308.3	74.4

The overview includes the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 61). The transactions were carried out at normal market conditions.

32 Deposits by Banks

in €m	31.12.2009	31.12.2008
Current accounts	563.5	625.3
Money market transactions	1,961.3	1,869.5
of which overnight money	11.9	26.4
of which term deposits	1,949.4	1,843.1
Other liabilities	172.8	214.3
Total	**2,697.6**	**2,709.1**
of which domestic banks	741.5	858.0
of which foreign banks	1,956.1	1,851.1

As at 31 December 2009 deposits by banks secured by charges on real property amounted to € 65.6 million (2008: € 20.1 million). In addition to the balances on our accounts held with our correspondent banks, deposits by banks comprise mainly deposits from other banks of the HSBC Group.

33 ▸ Customer Accounts

in €m	31.12.2009	31.12.2008
Current accounts	5,686.8	6,064.5
Money market transactions	3,040.4	5,066.4
of which overnight money	346.4	685.8
of which term deposits	2,694.0	4,380.6
Savings deposits	33.6	12.9
Other liabilities	301.3	449.0
Total	**9,062.1**	**11,592.8**
of which domestic customers	6,193.1	8,707.4
of which foreign customers	2,869.0	2,885.4

Customer accounts continue to represent our main refinancing source. The change in customer accounts is largely due to a decline in term deposits, which were at an extremely high level owing to the crisis affecting financial markets in the previous year.

34 ▸ Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10 million (2008: € 10 million).

35 ▸ Trading Liabilities

in €m	31.12.2009	31.12.2008
Negative market value of derivatives	2,452.9	3,190.8
Discount certificates, promissory note loans, bonds and warrants	2,637.1	2,852.4
Delivery obligations arising from securities sold short	17.7	39.5
Securities lending	11.4	20.9
Security in the derivatives business	74.4	47.2
Derivatives held in the banking book	0.0	2.1
Derivatives in hedging relationships	3.2	0.0
Total	**5,196.7**	**6,152.9**

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading divisions. These issues are recognised accordingly as trading liabilities pursuant to IAS 39, and are valued at fair value. The decline in the negative market value of the derivatives corresponds with the falling positive market value of the derivatives (cf. Note 24).

The securities lending and collateral items in the derivatives trading business include funds that we have received as collateral.

36 ▸ Provisions

in €m	As at 01.01.2009	Utilisation	Reversals	Additions/ compounding	Transfers	Actuarial result	At 31 December 2009
Provisions for pensions and similar obligations	11.2	3.8	0.0	4.1	2.2	– 1.6	12.1
Provisions related to human resources	57.0	46.8	1.4	49.8	0.0	0.0	58.6
Provisions for credit risks	6.8	0.0	2.0	2.0	0.0	0.0	6.8
Provisions for other taxes	2.7	0.0	0.0	0.0	0.0	0.0	2.7
Other provisions	39.7	8.1	5.4	45.8	0.0	0.0	72.0
Provisions	117.4	58.7	8.8	101.7	2.2	– 1.6	152.2

Provisions for Pensions and Similar Obligations

Various pension payment and benefit regulations exist for employees depending on the date the employee joined the Group, as well as on the country of incorporation of the respective Group company.

Old-age, early retirement, invalidity as well as surviving dependent's pensions are granted within the framework of all plans. The amount of the pension is geared substantially to the employee's pensionable length of service and basic salary. In addition, for part of the benefit claims, the amount paid depends on the contribution assessment ceiling in the statutory pension scheme.

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. Furthermore, there are two endowments that bear 6.0 % and 7.5 % interest, respectively.

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 4.8 million in the year under report (2008: € 4.6 million).

Provisions for pensions and similar obligations are computed in accordance with actuarial principles using the projected unit credit method. These calculations are performed annually and are currently based on the following parameters:

in %	31.12.2009	31.12.2008
Long-term base rate of interest	5.5	5.75
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	6.0	6.0

Due to the stabilisation on the money and capital markets, which resulted in falling risk premiums on fixed-rate industrial bonds, the base interest rate was lowered to 5.5 % in the year under report (2008: 5.75 %).

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2010.

The provision for pensions and similar obligations also includes the obligations for semi-retirement, early retirement and anniversary payments.

Development of Pension Obligations

in €m	2009	2008
Pension obligations as at 1.1.	**180.0**	**176.9**
Service costs	5.0	5.4
Interest expense	10.2	10.3
Pensions paid	–10.6	–9.9
Change in scope of consolidation	0.0	2.0
Transfers and others	0.0	0.1
Change in actuarial gains and losses	6.2	–4.8
Pension obligations as at 31.12.	**190.8**	**180.0**

Within the scope of the calculation of pension obligations, parameters that are naturally characterised by uncertainties are estimated on a regular basis. An increase in the long-term base interest rate to 5.75 % would lower the pension obligations by € 5.6 million. On the other hand, if the long-term base interest rate were to fall to 5.25 %, pension obligation would increase by € 5.9 million.

Breakdown of Pension Obligations

in €m	2009	2008	2007	2006	2005
Non-funded pension obligations	**8.1**	**6.7**	**4.3**	**4.8**	**4.8**
Funded pension obligations					
Present value of pension obligations	182.7	173.3	172.6	192.4	198.0
Fair value of plan assets	197.4	185.3	201.7	196.6	181.6
Balance	–14.7	–12.0	–29.1	–4.2	16.4
of which plan shortfall	**4.0**	**4.5**	**2.8**	**5.6**	**16.4**
of which plan excess	18.7	16.5	31.9	9.8	0.0
Total pension obligations	**12.1**	**11.2**	**7.1**	**10.4**	**21.2**
of which actuarial gains and losses					
from plan assets	–16.6	–24.4	–1.1	0.4	1.2
from plan obligations	–17.6	–11.4	–16.2	–39.0	–49.5

The change in the plan excess is shown in the provisions in the transfers column.

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to € 23.3 million after taxes (2008: € 24.4 million). Although falling interest rates created actuarial losses on the obligations side, these were more than compensated for by the positive performance of the plan assets.

Development of the Fair Value of Plan Assets

in €m	2009	2008
Fair value of plan assets as of 1.1.	**185.3**	**201.7**
Additions/withdrawals	–6.8	–5.8
Estimated income from plan assets	11.1	12.6
Change in scope of consolidation	0.0	0.1
Change in actuarial gains and losses	7.8	–23.3
Fair value of plan assets as of 31.12.	**197.4**	**185.3**

The actual profits from plan assets in the year under report amounted to € 18.9 million (2008: losses of € 10.7 million). A reduction to 5.75 % in the planned return on plan assets would have increased the actuarial result by € 0.4 million. An increase in the planned return to 6.25 % would have reduced the actuarial result by € 0.5 million.

Breakdown of the Fair Value of Plan Assets

in €m	2009	2008
Bonds and other fixed-income securities	114.3	132.7
Equities	25.7	15.0
Discount/index certificates	20.7	9.5
Re-insurance claims from life insurance	15.0	14.1
Investment funds	6.7	4.6
Closed-end property funds	4.0	4.0
Other	11.0	5.4
Fair value of plan assets as of 31.12.	**197.4**	**185.3**

Obligations from performance-related remuneration are essentially reported under provisions related to human resources.

Provisions for credit risks include provisions for anticipated losses in connection with endorsement liabilities, sureties, acceptances and credit commitments. They are part of net loan impairment and other credit risk provisions (cf. Note 23).

The provisions for other taxes essentially include expected payment obligations resulting from auditing for taxes on commercial capital, salaries, turnover and capital from the previous years.

Other provisions include above all provisions for contingent liabilities, especially in conjunction with risks in the property business, with interest rate risks from tax audits as well as IT services still subject to final negotiations.

37 Taxation

in €m	31.12.2009	31.12.2008
Current taxation	61.1	81.5
Deferred taxation	6.6	3.6
Total	67.7	85.1

Current taxation includes provisions for taxation that are likely to be paid on the basis of the tax accounts of the fully consolidated Group companies, less previous tax prepayments; our obligations arising from any taxation to be paid as a result of current and future audits are also reported under this item.

Deferred taxation is our future tax burdens or relief, formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 51).

As in the previous year, deferred taxation recoverable is offset against deferred taxation if the prerequisites for offsetting exist.

Deferred taxation recoverable and deferred taxation are attributable to the following items:

in €m	31.12.2009	31.12.2008	Change
	As shown in the balance sheet		
Share-based payments	7.2	6.3	0.9
Trading portfolio*	6.0	3.8	2.2
Intangible assets	2.1	2.1	0.0
Loss carried forward	0.0	–1.1	1.1
Derivatives held in the banking book	–0.7	–3.0	2.3
Buildings	–1.1	–0.9	–0.2
Net loan impairment and other credit risk provisions	–2.0	1.6	–3.6
Pensions	–2.4	–3.1	0.7
Financial assets	–8.3	0.1	–8.4
Provisions	–10.0	–2.3	–7.7
Recognised in the Income Statement	**–9.2**	**3.5**	**–12.7**
Financial Instruments	26.8	7.0	19.8
Foreign currency translation	–0.1	0.0	–0.1
Pensions	–10.9	–11.4	0.5
With effect on equity	**15.8**	**–4.4**	**20.2**
Deferred taxes	**6.6**	**–0.9**	**7.5**
of which taxation recoverable	0.0	4.5	–4.5
of which taxation	6.6	3.6	3.0

* Balance from measurement differences in all trading activities

38 Other Liabilities

in €m	31.12.2009	31.12.2008
Liabilities from other taxes	10.6	15.8
Deferred income	22.6	27.5
Accrued interest on		
Subordinated liabilities	7.1	8.3
Participatory capital	4.9	7.4
Other	50.1	49.2
Total	**95.3**	**108.2**

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with clients.

39 Subordinated Capital

in €m	31.12.2009	31.12.2008
Subordinated liabilities (promissory note loans, bonds)	284.4	322.9
Participatory capital	100.0	135.8
Total	**384.4**	**458.7**

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or more occasions by 29 May 2011 up to a total amount of € 250 million. As in the previous year, no use was made of this facility in the last financial year.

In the event of liquidation, insolvency, or proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against HSBC Trinkaus have been met. All subordinated claims have equal priority. No subordinated liabilities can be terminated prematurely by creditors. Profit-participation certificates can be terminated prematurely by HSBC Trinkaus if there is a change in the tax framework, subject to two years' notice of termination.

Subordinated capital of € 365.8 million (2008: € 396.2 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to section 10 (5a) of the German Banking Act (KWG).

For the 2009 financial year, interest payable amounts to € 14.1 million (2008: € 16.2 million) on subordinated liabilities and to € 6.1 million (2008: € 7.4 million) on profit-participation certificates.

Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€m) 31.12.2009	Nominal amount (€m) 31.12.2008
5 % or lower	100.2	128.2
Over 5 % up to 8 %	159.2	169.7
Fixed rates	259.4	297.9
Variable rates	25.0	25.0
Total	284.4	322.9

Repayment	Nominal amount (€m) 31.12.2009	Nominal amount (€m) 31.12.2008
Up to 1 year	6.0	38.5
Over 1 year up to 5 years	80.2	86.2
Over 5 years	198.2	198.2
Total	284.4	322.9

40 ▸ Shareholders' Equity

As at 31 December 2009, share capital was unchanged at € 70.0 million. As before, this is divided into 26,100,000 notional no par value shares.

The Management Board is authorised to increase the share capital by up to € 35.0 million on or before 31 May 2013, with the Supervisory Board's approval, through one or more issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to € 35.0 million by means of issuing no-par value bearer shares. The conditional capital increase may only be carried out to the extent that the holders of convertible and option rights make use of the conversion and option rights under the convertible bonds or bonds cum warrants or profit participations rights to be issued on or before 31 May 2013 (conditional capital).

Valuation reserve for financial instruments

The change in the valuation reserve for financial instruments, as part of retained earnings, was as follows:

in €m	2009	2008
Net valuation reserve as at 1.1.	47.5	76.2
Disposals (gross)	2.7	–28.6
Market fluctuations (gross)	54.3	–44.2
Impairments (gross)	23.9	43.7
Deferred taxes	–19.8	0.4
Net valuation reserve as at 31.12.	108.6	47.5

Shareholders' Equity in Accordance with the German Banking Act (KWG)

A bank's capital for regulatory purposes is divided into three components – core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily share capital plus the capital reserve and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominately of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

According to the regulatory requirements, banks are obliged to quantify their counterparty, market and operational risks, and to back them with eligible capital. Market risks result from the interest rate and share price risk on the trading portfolio, as well as foreign exchange risk, commodity risk and other positions exposed to market risk. Counterparty risk may be backed only by core and supplementary capital, while market risk can also be backed by tertiary funds. The minimum mandatory total capital ratio is 8 %. At the same time, at least 4 % of the risk-weighted assets must be backed by core capital. The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis. The regulatory ratios following confirmation of the balance sheet are as follows:

in €m	2009	2008
Core capital (Tier I)		
Consolidated, core capital as disclosed on the balance sheet	858	803
Intangible assets	–41	–49
Total core capital	**817**	**754**
Supplementary capital (Tier II)		
Subordinated liabilities	263	294
Participatory capital	100	100
Unrealised profits from listed securities	47	31
Consolidation	–15	–14
Total supplementary capital	**395**	**411**
Adjustment items	–52	–14
Regulatory capital excluding ancillary capital	**1,160**	**1,151**
Ancillary capital (Tier III)	**0**	**0**
Total regulatory capital	**1,160**	**1,151**
Risk-weighted assets	5,925	6,825
Market risk equivalent	800	813
Operational risk	1,125	950
Risk exposure	**7,850**	**8,588**
Core capital ratio in %	**10.4**	**8.8**
Equity ratio in %	**14.8**	**13.4**

Thanks to our good capitalisation, we have been able to continue to pursue our growth strategy within the framework of our successful business model.

The availability of adequate shareholders' equity is fundamental to the management of the Bank, in order to adequately cover the risks inherent in banking. We have deliberately exceeded the regulatory requirements quite considerably in order to be prepared to achieve organic growth and deal with fluctuations in the course of business, whilst creating scope for appropriate strategic acquisitions. All in all, we want to maintain a minimum total capital ratio of 10 %. Please refer also to the comments on the Bank's financial position in the Group Management Report.

An analysis of the economic capital requirement complements our management of shareholders' equity, which is focused on the regulatory requirements. Although the introduction of the Basel II Accord considerably improved the risk-measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and the available risk cushions in our business, in conjunction with the issue of the Bank's risk-bearing capacity even in extreme stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees, and the statistical databases feature different qualities, so that an aggregation of the risk is not quite without its problems. We continued to refine the calculation of economic capital requirements in 2009.

Ultimately it can be said that the Bank's risk-bearing capacity is unchanged and its capitalisation adequate. This is also confirmed by the business results for the 2009 financial year.

HSBC Trinkaus meets its disclosure obligations pursuant to Pillar 3 through the disclosure made at the Group level by HSBC Holdings plc, London (Section 319 (3) SolvV). We refer in this respect to HSBC's publications under the heading Investor Relations on its website (www.hsbc.com).

41 ▸ Minority Interests

Minority interests comprise investments in one closed-end property fund (2008: two) that is fully consolidated in the consolidated financial statements.

Notes on the Consolidated Income Statement

42 Net Interest Income

in €m	2009	2008
Interest income	**235.1**	**397.6**
From loans and advances to banks	36.4	127.0
Money market transactions	30.9	111.1
Other interest-bearing receivables	5.4	15.9
Reverse repos	0.1	0.0
From loans and advances to customers	95.9	190.6
Money market transactions	21.6	55.7
Other interest-bearing receivables	74.3	134.9
From financial assets	102.8	80.0
Interest income	99.4	77.2
Dividend income	2.2	0.6
Income from subsidiaries	1.2	2.2
Interest expense	**91.8**	**258.1**
From deposits by banks	17.2	60.0
Money market transactions	12.3	47.9
Other interest-bearing deposits	4.9	12.1
From customers accounts	53.9	174.0
Money market transactions	23.3	82.7
Other interest-bearing deposits	30.6	91.3
From securitised liabilities	0.4	0.4
From subordinated capital	20.2	23.6
Other	0.1	0.1
Net interest income	**143.3**	**139.5**

During the year under report, we achieved net interest income of € 143.3 million (2008: € 139.5 million) and therefore succeeded once again in exceeding the previous year’s level.

The general fall in interest rates led to a significant decline in interest income and interest expense in the year under report.

The decline in the margin in the deposit-taking business on almost unchanged average volume for the year led to lower net interest income in our client business, which could not be offset by higher margins in the lending business. Financial assets were responsible for the material improvement in interest income since we invested a considerable portion of our liquidity in bonds with impeccable ratings.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 4.5 million (2008: € 5.3 million).

43 Share of Profit in Associates

The share of profit in associates resulted mainly from our interest in SINO AG. At € 0.6 million, the result is down slightly on last year (2008: € 0.5 million).

In the year under report, HSBC Global Asset Management (Switzerland) AG, Zürich, was accounted for at equity for the first time as a joint venture (cf. Note 1).

44 ▸ Net Loan Impairment and Other Credit Risk Provisions

in €m	2009	2008
Additions	27.9	7.0
Reversals	5.5	2.4
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.1
Total	**22.4**	**4.5**

Additions to net loan impairment and other credit risk provisions amounted to € 22.4 million (2008: € 4.5 million). The increase is largely attributable to additions of € 18.9 million to individually assessed impairments due to the threat of defaults in a small number of high-volume credit exposures. Our conservative stance is unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks. This once again facilitated the reversal of individually assessed impairments in the amount of € 5.5 million in the year under report (2008: € 2.4 million).

In addition, collectively assessed impairments increased by € 9.0 million (2008: € 3.4 million), thus reflecting the general economic downturn and the associated higher potential risks in our loan book.

45 ▸ Net Fee Income

in €m	2009	2008
Securities transactions	236.7	231.6
Foreign exchange transactions and derivatives	51.6	61.0
Issuing and structuring business	13.7	10.9
Foreign business	12.5	13.5
Lending	8.8	5.0
Payments	6.6	6.0
Investment banking	3.1	2.7
Real estate	1.2	0.3
Other fee-based business	12.0	16.6
Total	**346.2**	**347.6**

The fee-based business, which accounted for 55.9 % of operating profit (2008: 59.0 %), remains a crucial factor to the Bank's success. We achieved another favourable result of € 346.2 million and are therefore almost on par with the previous year's level (2008: € 347.6 million).

On account of the burgeoning optimism on equity markets in the second half of the year, we achieved an increase of € 5.1 million or 2.2 % for the year as a whole, despite fewer securities transactions in the first half-year. The € 2.8 million increase in the issuing and structuring business to € 13.7 million is also positive. This, together with the € 3.8 million increase in the lending business to € 8.8 million (2008: € 5.0 million), reflects the confidence placed by our clients in our ability to raise external capital and their perception of us as a reliable partner.

Trust activities performed by the Group in its own name, but for the account of third parties, are not recognised in the balance sheet. As in the previous year, net fee income includes practically no income or expense from trust activities.

46 Net Trading Income

in €m	2009	2008
Equities and equity/index derivatives	63.9	87.0
Bonds and interest rate derivatives	46.2	2.4
Foreign exchange	7.8	8.8
Derivatives held in the banking book	5.1	– 11.1
Total	123.0	87.1

At € 123.0 million, net trading income is significantly higher than last year's result (2008: € 87.1 million). This increase is due largely to our interest-related business, where we succeeded in increasing our result by € 43.8 million, to € 46.2 million (2008: € 2.4 million). The extraordinarily good result generated in money market trading was based on our excellent liquidity situation. In addition, the spread-tightening associated with the stabilisation of the money and capital markets led to significant valuation gains on fixed-income securities, which met set against considerable valuation losses the year before.

Trading in equity and equity/index derivatives fell by € 23.1 million to € 63.9 million (2008: € 87.0 million) in the year under report. This development is largely attributable to the slump in demand for investment certificates. We substantially extended our market share in the business with trading-oriented retail products and therefore formed the basis further positive net trading income.

The valuation losses incurred in the previous year on derivatives held in the bank book were offset again in part.

47 Administrative Expenses

in €m	2009	2008
Staff expenses	237.9	232.3
Wages and salaries	205.4	202.8
Social security costs	21.9	21.5
Expenses for retirement pensions and other employee benefits	10.6	8.0
Other administrative expenses	137.4	134.4
Depreciation of property, plant and equipment and of intangible assets	25.5	17.5
Total	400.8	384.2

Other administrative expenses include € 24.3 million (2008: € 18.8 million) in expenses arising from rental and lease payments.

Administrative expenses climbed moderately in the year under report, by € 16.6 million or 4.3 % to € 400.8 million (2008: € 384.2 million). This was due to a slight increase in staff expenses, which is reflected by a corresponding rise in the number of staff employed. Furthermore, increased expenses for payments to the Pension Security Association were taken into account.

The increase in other administrative expenses includes, among other things, higher contributions to the deposit guarantee fund (EInlagensicherungsfond).

The significantly higher impairment losses result from goodwill impairment created in the year under report in conjunction with the business combination in 2008 with the former ITS (now known as HSBC Transaction Services) (cf. Note 4). An extraordinary impairment loss of € 1.9 million (2008: € 0.0 million) on software components that were no longer required was also taken into consideration in the year under report (cf. Note 27).

The breakdown of expenses for retirement pensions and other employee benefits is as follows:

in €m	2009	2008
Expenses for defined benefit plans	4.1	3.1
of which current service costs	5.0	5.4
of which interest expense	10.2	10.3
of which estimated income from the plan assets	– 11.1	– 12.6
Expenses for defined contribution plans	4.8	4.6
Other expenses for retirement provisions	1.7	0.3
Total	**10.6**	**8.0**

48 ▸ Income from Financial Assets

A loss of € 24.0 million from financial assets was reported in 2009 compared with a loss of € 50.0 million the year before, largely on account of impairments on our portfolio. Overall, we recognised impairments in the amount of € 23.9 million (2008: € 43.7 million), a large proportion of which is accounted for by equity and investment funds in the banking book that showed signs of a significant or permanent impairment, and were therefore written down to their lower market values in the income statement. In addition, fixed-income securities, whose ratings were downgraded, were written to their lower market values.

At the same time, write-ups of € 1.8 million (2008: € 0.0 million) on previously impaired fixed-income securities could also be taken into account.

On balance, the sale of financial assets – investment funds in particular – generated a loss of € 2.7 million, compared with a loss of € 6.3 million the year before.

The following table highlights the composition of the realisation gains from financial assets from the performance of previous years and of the year under report:

in €m	2009	2008
Income statements		
Net gain/loss from disposal	–2.7	–6.3
Tax expenses	0.9	2.0
Net realisation gain in the income statement	**–1.8**	**–4.3**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	2.7	6.3
of which volatility in the year under report	–1.7	19.2
of which volatility in previous years	4.4	– 12.9
Performance of corresponding tax expenses		
Change from disposals (derecognition)	–0.9	–2.0
of which volatility in the year under report	0.5	–6.1
of which volatility in previous years	–1.4	4.1

The following table shows how the impairments or write-ups on financial assets are attributable to the performance of previous years and of the year of impairment/write-back:

in €m	2009	2008
Income statement		
Impairments/write-ups on financial instruments	–23.9	–43.7
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	23.9	43.7
of which volatility in the year under report	17.0	42.9
of which volatility in previous years	6.9	0.8
Performance of corresponding tax expenses		
Changes from impairments/write-ups	–4.1	–16.3
of which volatility in the year under report	–2.9	–16.0
of which volatility in previous years	–1.2	–0.3

49 ▸ Net Other Income / Expenses

in €m	2009	2008
Other operating income	20.0	10.0
Other operating expenses	8.4	6.5
Other operating income/expenses	**11.6**	**3.5**
Other income	2.4	0.1
Other expenses	16.2	1.4
Other net income	**–13.8**	**–1.3**
Net other income/expenses	**–2.2**	**2.2**

Other operating income essentially includes € 4.6 million (2008: € 4.9 million) from the reversal of other provisions, € 3.9 million (2008: € 0.0 million) from the placement of real estate funds and € 3.8 million (2008: € 1.7 million) in rental income.

Other operating income/expenses also include for the first time the hedge result that amounted to a loss of € 0.1 million (cf. Notes 6 and 59).

Other expenses of € 16.2 million (2008: 1.4 million) include for the most part provisions of € 15.6 million for the business with closed-end real estate fund plus impairments of € 0.3 million (2008: € 1.0 million) on land and property. The impairment is recognised on the basis of the annual valuation carried out by an external appraiser on the respective reporting date and reflects the change in the economic valuation of a property. For the purposes of segment reporting, impairments are allocated to the "Central Divisions/Consolidation" business segment (cf. Note 54).

As in the previous year, no write-ups were required on land and property in the year under report.

Other net income also includes gains/losses from the disposal of property, plant and equipment totalling € 2.1 million (2008: € 0.3 million). Repairs, maintenance and other measures required for the upkeep of property, plant and equipment are recorded as expenses in the financial year in which they were incurred.

50 Tax Expenses

in €m	2009	2008
Current taxes	66.8	100.5
of which off-period	0.2	–2.5
Deferred taxes from change in limited valuation differences	–12.5	–51.9
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**54.3**	**48.6**

As in the previous year, the effective corporation tax in Germany is 15.8 %. Taking trade income tax into account, the combined tax rate is unchanged at approximately 32.0 %. The rate also forms the basis for calculating deferred taxes.

The following table shows the relationship between tax expenses derived from profit before taxes and the actual tax expenses reported.

in €m	2009	2008
Pre-tax profit	163.7	146.2
Tax rate (%)	32.0	32.0
Tax expenses derived from profit before taxes	52.4	46.7
Tax rate differential on income proportions subject to taxation outside of Germany	–1.6	–1.0
Effect from unused losses carried forward	0.5	2.0
Effect from tax-exempt income and non-tax deductible expenses in accordance with Section 8 b KStG	0.0	0.9
Taxes for previous years	0.2	–2.1
Non-deductible expenses from share-based payments	1.6	0.3
Modifications for the purposes of trade tax	0.9	1.2
Miscellaneous	0.5	0.6
Reported taxation	**54.5**	**48.6**

51 ▸ Calculation of Operating Profit

in €m	2009	2008	Change	
			in €m	in %
Interest income	235.1	397.6	–162.5	–40.9
Interest expense	91.8	258.1	–166.3	–64.4
Net interest income	143.3	139.5	3.8	2.7
Net loan impairment and other credit risk provisions	22.4	4.5	17.9	>100.0
Net interest income after net loan impairment and other credit risk provisions	120.9	135.0	–14.1	–10.4
Share of profit in associates	0.6	0.5	0.1	20.0
Fee income	575.1	606.5	–31.4	–5.2
Fee expenses	228.9	258.9	–30.0	–11.6
Net fee income	346.2	347.6	–1.4	–0.4
Net trading income	117.9	98.2	19.7	20.1
Staff expenses	237.9	232.3	5.6	2.4
Other administrative expenses	162.9	151.9	11.0	7.2
Administrative expenses	400.8	384.2	16.6	4.3
Other operating income/expenses	11.6	3.5	8.1	>100.0
Operating profit	**196.4**	**200.6**	**–4.2**	**–2.1**
Income from financial assets	–24.0	–50.0	26.0	–52.0
Income from derivatives in the bank book	5.1	–11.1	16.2	>100.0
Other net income	–13.8	–1.3	–12.5	>100.0
Pre-tax profit	**163.7**	**138.2**	**25.5**	**18.5**
Tax expenses	54.5	48.6	5.9	12.1
Net profit for the year	**109.2**	**89.6**	**19.6**	**21.9**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (cf. Note 50). A breakdown of operating profit by business segment is shown in Segment Reporting (Note 54).

Operative trading profit comprises net trading income from our trading desks but does not include results from derivatives held in the banking book.

52 Income Statement by Measurement Category

The following overview includes on the one hand net profit or net loss for every IAS 39 measurement category of financial assets and financial liabilities. Net profits/losses are a net earnings indicator comprising changes in market value recognised in the income statement, disposals of financial instruments, impairments and currency translation effects if necessary. On the other hand, interest income/expenses as well as fee income/expenses are included in every measurement category.

Measurement category 31.12.2009 in €m	Loans and receivables	Other financial instruments	Held-for-Trading	Derivatives in hedging relationships	Available-for-sale	Other financial liabilities	Other	Total
Net interest income								
Interest income	128.9	3.4			102.8			235.1
Interest expense						−91.8		−91.8
Net fee income								
Fee income	9.1						566.0	575.1
Fee expenses	−0.3						−228.6	−228.9
Net trading income			123.0					123.0
Income from financial assets					15.5			15.5
Net other income/expenses				−0.7	0.6		−2.1	−2.2
Impairments								
Net loan impairment and other credit risk provisions	−18.6						−3.8	−22.4
Income from financial assets					−39.5			−39.5
Total	**119.1**	**3.4**	**123.0**	**−0.7**	**79.4**	**−91.8**	**331.5**	**563.9**

Measurement category 31.12.2008 in €m	Loans and receivables	Other financial instruments	Held-for-Trading	Derivatives in hedging relationships	Available-for-sale	Other financial liabilities	Other	Total
Net interest income								
Interest income	307.6	10.0			80.0			397.6
Interest expense						−258.1		−258.1
Net fee income								
Fee income	5.1						601.4	606.5
Fee expenses	−0.1						−258.8	−258.9
Net trading income			87.1					87.1
Income from financial assets					−6.3			−6.3
Net other income/expenses							2.2	2.2
Impairments								
Net loan impairment and other credit risk provisions	−5.9						1.4	−4.5
Income from financial assets					−43.7			−43.7
Total	**306.7**	**10.0**	**87.1**	**0.0**	**30.0**	**−258.1**	**346.2**	**521.9**

Other Notes

53 Notes to the Cash Flow Statement

IAS 7 (Cash Flow Statements) requires all companies to draw up a cash flow statement. However, the value of the information it provides, as part of the annual accounts of financial institutions, is relatively limited. It shows movements in cash and cash equivalents arising from additions and disposals in the Group over the course of the financial year.

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fee income, the at-equity result, operating trading income and the balance of other operating income and expenses, minus administrative expenses and net loan impairment and other credit risk provisions.

The summary item "Other adjustments (net)" in the cash flow statement essentially comprises net changes to deferred taxes, the change in taxation recoverable as well as tax expenses paid, interest and dividends received minus interest paid.

Cash and Cash Equivalents
As in the previous year, the cash and cash equivalents of € 177.0 million (2008: € 139.5 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

Cash Flow from Operating Activities
Consolidated cash flows from operating activities for the Group are presented according to the indirect method, which derives them from net profit for the year.

Consolidated net profit for the year of € 109.2 million (2008: € 89.6 million) is the input figure for the cash flow statement. Gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to € 101.7 million (2008: € 30.3 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash Flow from Investing Activities
Spending on the acquisition of property, plant and equipment totalled € 18.6 million in the 2009 financial year (2008: € 22.8 million). The sale of property, plant and equipment realised € 4.5 million (2008: € 1.0 million) for the Group. In the 2009 financial year, the sale and purchase of financial assets realised a net outgoing payment of € 0.9 million (2008: € 2.5 million receipt of payment).

Cash Flow from Financing Activities
Cash flow from financing activities includes the dividend of € 65.3 million for the 2009 financial year (2008: € 65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in a payment of € 74.3 million (2008: € 0.0 million).

54 ▸ Segment Reporting

The segment reporting prepared by HSBC Trinkaus & Burkhardt in accordance with IFRS 8 provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions, and should help them gain a more differentiated picture of the economic performance of the Group.

The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits as a key component of the Management Information System (MIS). The MIS serves as one of the Bank's central management and controlling tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis.

Hence, the segment reporting covers the following business areas, which are essentially structured to meet the needs of our clients:

Private Banking
The Private Banking business division offers the clients of HSBC Trinkaus extensive advisory and management services for larger private portfolios. In addition to general portfolio management and advisory services, this involves special services such as advice on asset structuring, execution of wills, real estate advisory services as well as Family Office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

Corporate Banking
The Corporate Banking division of HSBC Trinkaus offers large and medium-sized companies a comprehensive spectrum of professional services tailored to meet individual needs. These include basic services for various lending and deposit products, as well as the comprehensive domestic and foreign payment transactions service (PCM = payments and cash management). In addition, we offer sophisticated specialised services such as interest rate and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients
In the Institutional Clients division HSBC Trinkaus offers its institutional clients, namely fund-gathering institutions with major investment needs such as insurance companies, pension and investment funds and also banks, the full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients, e.g. to guarantee the value of large investment portfolios.

Global Markets
The Global Markets division deals with the transactions in securities, financial instruments, foreign exchange and derivatives that HSBC Trinkaus undertakes on its own account, and in its own name. Through its trading activities, therefore, the Bank itself participates in the market, acting as a market-maker whilst seeking to generate additional profit by pursuing clearly defined trading goals.

Central Divisions / Consolidation
In addition to overhead costs that cannot be unambiguously allocated to specific business divisions, Central Divisions / Consolidation includes profits from selected strategic asset and liability items that cannot be directly attributed to one particular division, as well as the results of asset liability management. As in the previous year, this segment also includes the earnings contributions from securities processing for financial services providers.

Segment income is broken down into net interest income, net fee income and net trading income. The difference between the standardised risk-related costs in the operating segments (credit-rating-related add-ons to drawings and limits not utilised) and the risk costs reported in the income statement is reported under Consolidation / Reconciliation. Wherever possible, administrative expenses are charged to the segments if possible according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

Segment reporting by business division for 2009 and 2008 is as follows:

€m		Private Banking	Corporate Banking	Institutional Clients	Global Markets	Central Divisions/ Consolidatin	Economic Group result	Consolidation/ Reconciliation	Total
Net interest income	2009	14.4	44.8	1.9	10.6	71.6	143.3	0.0	143.3
	2008	13.6	43.6	4.2	10.3	67.8	139.5	0.0	139.5
Net loan impairment and other credit risk provisions	2009	1.8	8.7	1.3	0.2	0.7	12.7	9.7	22.4
	2008	1.3	6.7	0.8	0.3	1.8	10.9	–6.4	4.5
Net interest income after net loan impairment and other credit risk provisions	2009	12.6	36.1	0.6	10.4	70.9	130.6	–9.7	120.9
	2008	12.3	36.9	3.4	10.0	66.0	128.6	6.4	135.0
Share of profit in associates	2009	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
	2008	0.0	0.0	0.0	0.0	0.5	0.5	0.0	0.5
Net fee income	2009	83.1	92.4	146.1	2.5	22.1	346.2	0.0	346.2
	2008	96.7	91.4	145.5	4.6	9.4	347.6	0.0	347.6
Net trading income	2009	0.0	–0.2	11.0	105.4	1.7	117.9	0.0	117.9
	2008	0.0	0.1	3.5	112.9	–18.3	98.2	0.0	98.2
Income after loan impairment and other credit risk provisions	2009	95.7	128.3	157.7	118.3	95.3	595.3	–9.7	585.6
	2008	109.0	128.4	152.4	127.5	57.6	574.9	6.4	581.3
Administrative expenses	2009	64.4	74.3	90.6	52.6	118.9	400.8	0.0	400.8
	2008	67.9	76.7	91.0	55.5	93.1	384.2	0.0	384.2
of which depreciation and amortisation	2009	1.5	1.1	0.6	0.6	21.7	25.5	0.0	25.5
	2008	1.4	1.0	0.9	0.6	13.6	17.5	0.0	17.5
Other operating income/ expenses	2009	–2.2	0.0	0.0	0.0	13.8	11.6	0.0	11.6
	2008	0.0	0.0	0.0	0.0	3.5	3.5	0.0	3.5
Operating profit	**2009**	**29.1**	**54.0**	**67.1**	**65.7**	**–9.8**	**206.1**	**–9.7**	**196.4**
	2008	**41.1**	**51.7**	**61.4**	**72.0**	**–32.0**	**194.2**	**6.4**	**200.6**
Income from financial assets	2009	0.0	0.0	0.0	0.0	–24.0	–24.0	0.0	–24.0
	2008	0.0	0.0	0.0	0.0	–50.0	–50.0	0.0	–50.0
Income from derivatives in the bank book	2009	0.0	0.0	0.0	0.0	5.1	5.1	0.0	5.1
	2008	0.0	0.0	0.0	0.0	–11.1	–11.1	0.0	–11.1
Other net income	2009	0.0	0.0	0.0	0.0	–13.8	–13.8	0.0	–13.8
	2008	0.0	0.0	0.0	0.0	–1.3	–1.3	0.0	–1.3
Profit before taxes	**2009**	**29.1**	**54.0**	**67.1**	**65.7**	**–42.5**	**173.4**	**–9.7**	**163.7**
	2008	**41.1**	**51.7**	**61.4**	**72.0**	**–94.4**	**131.8**	**6.4**	**138.2**
Taxation	2009	9.1	17.3	21.5	21.0	–14.4	54.5	0.0	54.5
	2008	12.8	16.5	19.6	23.0	–25.3	46.6	2.0	48.6
Net profit for the year	**2009**	**20.0**	**36.7**	**45.6**	**44.7**	**–28.1**	**118.9**	**–9.7**	**109.2**
	2008	**28.3**	**35.2**	**41.8**	**49.0**	**–69.1**	**85.2**	**4.4**	**89.6**
% change on previous year		–29.3	4.3	9.1	–8.8	–59.3	39.6	> 100.0	21.9

Despite the severe financial and economic crisis worldwide, all of the Bank's four core segments succeeded in generating high contributions to operating profit, thus documenting the strategic balance of HSBC Trinkaus' business activities and the strength of its client-based business model, which is supported by client-oriented trading operations. Diversification effects are reflected in the bank's ability to offset a fall in profits brought about by market fluctuations in individual areas by improved results in other segments, or through new or additional business potential. The negative consequences of the financial and economic crisis impacted in particular on the banks' income from financial assets as well as on other net income, which are managed in the corporate centres. Nevertheless, the burden came in under that of the previous year and could be largely offset by profitable investment of economic capital.

The effects of the economic crisis required a significant increase in net loan impairment and other credit risk provisions in the second half of 2008. The difference to the standard risk costs from the bank's credit model used in the five segments had the effect of reducing income within the scope of the reconciliation to group net loan impairment and other credit risk provisions as a whole, compared with a positive figure the year before.

The Institutional Clients segment was particularly successful, with the highest contribution to results and recording the highest percentage increase in results of all the bank's four core segments. High net fee income and net trading income generated by the fixed income business more than compensated for falling revenues in the asset management and equities business. The fixed-income business benefited from the numerous new issues that were managed by the HSBC Group as well as by the greater diversity of products brought about by the integration in HSBC Group.

The Corporate Banking segment improved on last year's results, especially net fee income from the origination and placement of fixed-income securities. Net interest income was also increased further. Despite the growth in volume of current account balances of corporate clients over the year, interest income in the deposit-taking business was down due to lower margins as a consequence of the ECB's rate-cutting operations. However, this was compensated by higher margins generated by better interest income in the lending business.

In contrast, the cautious stance adopted by many investors in the adverse market conditions meant that the Private Banking segment could only partially absorb the sharp fall in income earned in the securities business through the increase in interest income from the lending business, largely due to higher margins.

Global Markets failed to repeat the exceptionally good result attained in the previous year. Further improvement in the income generated by Treasury activities and increase in equity trading did not suffice to offset the lower income from equity derivatives and foreign exchange trading.

Thanks to strict cost discipline, the Bank avoided an increase in administrative expenses in the four main segments. The more than proportionate rise in costs in the corporate centres is largely explained by the considerable increase in payments to the deposit guarantee fund and the Pension Security Association.

		Private Bank-ing:	Corpo-rate Bank-ing	Institu-tional Clients	Global Mar-kets	Central Divi-sions/ Consoli-dation	Totall	Adjust-ments	Values as at balance sheet date
Cost:income ratio in %	2009	67.6	54.2	57.0	44.4	0.0	68.3	0.0	68.3
	2008	61.6	56.8	59.4	43.4	0.0	72.9	0.0	72.9
Assets* in €m	2009	613.0	2,018.0	2,083.5	8,059.3	7,988.7	20,762.5	−2,033.9	18,728.6
	2008	786.0	2,616.0	1,196.4	5,576.5	10,847.6	21,022.5	1,183.2	22,205.7
Liabilities* in €m	2009	3,410.0	4,256.0	1,657.3	2,949.4	7,394.4	19,667.1	−2,700.7	16,966.4
	2008	4,002.0	3,406.0	1,642.4	2,328.8	8,624.6	20,003.8	461.0	20,464.8
Items for mandatory inclusion* in €m	2009	501.4	2,850.8	740.5	693.2	3,344.3	8,130.2	−280.2	7,850.0
	2008	507.5	2,911.2	609.9	599.8	4,195.2	8,823.6	−235.6	8,588.0
Attributable shareholders' equity* in €m	2009	140.1	328.1	159.2	155.5	167.1	950.0	112.5	1,062.5
	2008	135.6	327.9	143.8	143.0	174.4	924.7	30.3	955.0
Employees	2009	229	205	223	91	1,532	2,280		2,280
	2008	224	211	220	96	1,487	2,238		2,238
Return on equity before taxes (%)	2009	20.8	16.5	42.1	42.3		17.1		
	2008	30.3	15.8	42.7	50.4		15.2		

* Annual average

Assets, liabilities and items for mandatory inclusion are based on the average values of the Bank's management information system. The differences with respect to the values on the reporting date as at year-end are shown in the adjustments column.

The cost/income ratio is a measure of the divisions' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment and other credit risk provisions. This ratio has improved year-on-year in Institutional Clients and Corporate Banking. Global Markets and Private Banking reported a slight or significant deterioration respectively in their cost/income ratios, as their costs fell to a lesser extent than their income in percentage terms.

The capital resources of the business segments are made up of a base amount, which is identical for each segment, plus a variable portion calculated according to the amount of mandatory risk items in a given segment.

The assignment of assets, liabilities, risk assets and balance sheet equity follows the assignment of customers to each segment according to the management information system.

The decrease in loans and advances to customers in the Private Banking and Corporate Banking segments was accompanied by a reduction in their items for mandatory inclusion, while the base amounts were increased. In the Institutional Clients and Global Markets segments, loans and advances to customers together with the items for mandatory inclusion and capital requirements developed in parallel.

In line with the development of operating profit, the return on equity in the Corporate Banking segment improved further, whilst falling in Private Banking and Global Markets. The Institutional Clients segment succeeded in almost replicating its high return on equity of the previous year.

The results of the various companies' activities, which are classified geographically, are illustrated below. Segment allocation is determined by the registered office of the respective Group company:

€m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2009	135.4	26.4	1.9	163.7
	2008	110.6	26.2	1.4	138.2

Long-term segment assets amounted to € 256.2 million (2008: € 291.8 million) during the year under report, with Germany accounting for € 247.8 million (2008: € 298.8 million) thereof and the Luxembourg region for € 8.4 million (2008: € 2.0 million)

55 Measurement Classes

The following table provides an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.2009 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held-for-trading	Available for sale	
Cash reserve		177.0			177.0
Loans and advances to banks	2,429.4				2,429.4
Loans and advances to customers *	2,644.6				2,644.6
Trading Assets			10,005.7		10,005.7
Financial assets		53.1		3,073.0	3,126.1
Other financial instruments	14.9	2.3			17.2
Total financial instruments	**5,088.9**	**232.4**	**10,005.7**	**3,073.0**	**18,400.0**
Other assets not included under IAS 39					328.6
Total assets					**18,728.6**

Liabilities as at 31.12.2009 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,697.6		2,697.6
Customer accounts**	9,062.1		9,062.1
Certificated liabilities	10.0		10.0
Trading liabilities		5,196.7	5,196.7
Subordinated capital	384.4		384.4
Other financial instruments	55.0		55.0
Total financial instruments	**12,209.1**	**5,196.7**	**17,405.8**
Other liabilities not included under IAS 39			260.2
Shareholders' equity			1,062.5
Minority interests			0.1
Total assets			**18,728.6**

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customers' deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.08 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		139.5			139.5
Loans and advances to banks*	2,979.7				2,979.7
Loans and advances to customers *	4,061.2				4,061.2
Trading Assets			12,482.6		12,482.6
Financial assets		61.6		2,057.2	2,118.8
Other financial instruments	38.2	1.7			39.9
Total financial instruments	**7,079.1**	**202.8**	**12,482.6**	**2,057.2**	**21,821.7**
Other assets not included under IAS 39					384.0
Total assets					**22,205.7**

Liabilities as at 31.12.08 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,709.1		2,709.1
Customer accounts**	11,592.8		11,592.8
Certificated liabilities	10.0		10.0
Trading liabilities		6,152.9	6,152.9
Subordinated capital	458.7		458.7
Other financial instruments	50.5		50.5
Total financial instruments	**14,821.1**	**6,152.9**	**20,974.0**
Other liabilities not included under IAS 39			260.2
Shareholders' equity			955.0
Minority interests			16.5
Total assets			**22,205.7**

* Net loan impairment provision Is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customers' deposits are used in part internally to refinance our trading divisions.

56 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties. Details of the valuation can be found in Note 5.

Assets and liabilities held-for-trading as well as financial assets are reported in the balance sheet at market value, i.e. book value equates to market value. Cash reserves, interbank funds, loans and advances to customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant. For other items in the balance sheet, the following differences are noted between the fair value and reported book value:

€m	31.12.2009		31.12.2008	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	17.2	17.2	39.9	39.9

€m	31.12.2009		31.12.2008	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,697.6	2,697.6	2,709.1	2,708.5
Customer accounts (from the measurement of long-term promissory note loans borrowed)	9,062.1	9,094.8	11,592.8	11,579.6
Certificated liabilities	10.0	9.7	10.0	9.8
Subordinated capital	384.4	399.4	458.7	475.4
Other financial instruments	55.0	55.0	50.5	50.5

The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships or unlisted public limited companies for which there is no active market. Measurement is therefore at cost.

€m	31.12.2009	31.12.2008
	Book value	Book value
Partnerships	17.0	26.9
Holdings in unlisted public limited companies	36.1	34.7
Total	**53.1**	**61.6**

During the year under report, no partnerships, for which there is no active market, were disposed of (2008: € 0.1 million); the Bank has no intentions at present to dispose of partnerships.

The following overview lists items measured at fair value on the basis of the method used to calculate fair value:

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2009 €m		observed parameters	unobservable parameters		
Trading assets	1,551.1	8,416.7	37.9	0.0	10,005.7
of which derivatives in hedging relationships	0.0	0.2	0.0	0.0	0.2
Financial assets	627.1	2,438.5	7.4	53.1	3,126.1
Trading liabilities	614.3	4,499.7	82.8	0.0	5,196.7
of which derivatives in hedging relationships	0.0	3.2	0.0	0.0	3.2

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2008 €m		observed parameters	unobservable parameters		
Trading assets	1,490.1	10,992.3	0.2	0.0	12,482.6
Financial assets	470.2	1,584.7	2.3	61.6	2,118.8
Trading liabilities	697.1	5,429.6	26.2	0.0	6,152.9

For some financial instruments, quoted prices could no longer be used as fair values (so-called level 1) during the year under report. They were measured instead at fair value using our own internal measurement models. These models allow all parameters included on the market to be observed (so-called level 2).

Equity instruments comprise for the most part plain vanilla options or single barrier options. The former are measures by means of a Black-Scholes approach (binomial process), while the latter are evaluated using an approximate valuation approach. The following observable market parameters – underlying spot, underlying volatility, underlying dividends and interest rate – are included in these models.

Level 2 transactions in interest rate instruments are generally valued using the discounted cash flow method or the Black-Scholes method. The parameters required here (swap rates and volatility) can also be observed on the market.

Transfers from level 1 into level 2 are attributable to the fact that quoted prices no longer represent a measure of value due to the low trading volume, and theoretical models provide a more reliable fair value here. These transfers amounted to € 512.3 million in the year under report.

Conversely, financial instruments in the amount of € 61.1 million were transferred from level 2 to level 1. The previously illiquid markets recovered almost fully, so that the quoted prices could be used as reliable fair values.

Additionally, the fair value of some financial instruments was calculated using valuation models, where at least one of the parameters used cannot be observed on the market (so-called level 3). These instruments include among other things equity certificates on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured in an analytical Black-Scholes approach. As a rule, the correlation between the individual underlyings or between the underlying and the foreign currency represents the parameters that are not observed on the market.

In the year under report, the volume of level 3 financial instruments amounted to € 128.1 million (2008: € 28.7 million). The portfolio of level 3 financial instruments developed as follows in the year under report:

€m	Trading Assets	Financial assets**	Trading liabilities*	Total:
01.01.2009	0.2	2.3	26.2	**28.7**
Unrealised profits/losses	2.2	–2.1	6.3	**6.4**
of which:				
Income statement	2.2	– 2.1	6.3	**6.4**
valuation reserve	0.0	0.0	0.0	**0.0**
Realised profits/losses	–0.8	0.0	–6.6	–7.4
of which:				
maturity	–0.8	0.0	–6.6	–7.4
sale	0.0	0.0	0.0	**0.0**
New business	**0.0**	0.0	**0.0**	0.0
of which:				
purchases	0.0	0.0	0.0	**0.0**
issuance	0.0	0.0	0.0	**0.0**
Transfer to level 3	36.3	7.2	56.9	**100.4**
Transfer out of level 3	0.0	0.0	0.0	**0.0**
31.12.2009	**37.9**	**7.4**	**82.8**	**128.1**

* Realised and unrealised profits and losses on trading assets and liabilities are recorded in Net Trading Income in the Income Statement.
** Level 3 financial assets are imbedded derivatives, whose measurement results are recorded in Net Trading Income.

No level 3 financial instruments were transferred to other fair value levels in the year under report. On the other hand, financial instruments in the amount of € 100.4 million were transferred from other fair value levels to level 3 (2008: € 28.7 million). The year-on-year increase is largely attributable to our policy of classifying structured products entirely as level 3, while only embedded derivatives were classified as such in the previous year.

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to € 1.9 million (2008: € 0.2 million). A 25 % change in the unobservable parameters would lead to a € 0.6 million (2008: € 1.5 million) change in the market value.

57 Day-1 Profit or Loss

Financial assets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

The day-1 profit or loss developed as follows during the year under report:

€m	2009	2008
As at 1.1.	3.3	3.5
New business	0.4	2.1
Day-1 profit or loss recognised in the income statement	–1.9	–2.3
of which positions closed out	–0.5	–1.3
of which matured transactions	–1.4	–1.0
of which observable market parameters	0.0	0.0
As at 31.12.	1.8	3.3

58 ▸ Holdings in Foreign Currency

As at 31 December 2009, assets denominated in a foreign currency were valued at € 1,097.2 million (2008: € 2,635.9 million) and the corresponding liabilities at € 1,797.1 million (2008: € 3,666.2 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

59 ▸ Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with Section 36 of the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e.V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of their credit rating and any netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these derivatives.

Breakdown of the Derivatives Business by Nominal Amount

€m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2009	Total 2008
OTC products	FRAs	1,300	0	0	1,300	790
	Interest rate swaps	5,951	12,854	8,918	27,723	31,374
	Interest rate options	1,568	2,834	2,851	7,253	11,208
	Forward transactions	1,191	0	0	1,191	0
Exchange-listed products	Interest rate futures	366	220	0	586	2,394
	Interest rate options	37	0	0	37	382
Interest rate transactions		10,413	15,908	11,769	38,090	46,148
OTC products	Foreign exchange forwards	22,882	1,044	2	23,928	27,451
	Cross currency swaps	528	115	12	655	397
	Foreign exchange options	2,511	243	0	2,754	5,437
Foreign exchange-based transactions*		25,921	1,402	14	27,337	33,285
OTC products	Forward transactions	280	2	0	282	0
	Equity/index options	51	184	43	278	752
	Equity swaps	10	53	53	116	0
Exchange-listed products	Equity/index futures	502	0	0	502	653
	Equity/index options	4,329	1,355	0	4,841	7,109
Equity/index-based transactions		4,050	1,594	96	6,020	8,514
Total financial derivatives		40,663	18,904	11,879	71,446	87,947

* including gold transactions

Breakdown of the Derivatives Business by Market Value

€m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2009	Total 2008	Total 2009	Total 2008
OTC products	FRAs	0	0	0	0	2	0	2
	Interest rate swaps	86	324	451	861	762	1,111	921
	Interest rate options	3	17	54	74	120	103	152
	Forward transactions	7	0	0	7	0	8	0
Interest rate transactions		**96**	**341**	**505**	**942**	**884**	**1,223**	**1,075**
OTC products	Foreign exchange forwards	310	30	0	340	1,064	325	1,075
	Cross currency swaps	9	6	0	15	21	10	28
	Foreign exchange options	34	9	0	43	146	42	144
Foreign exchange-based transactions*		**353**	**45**	**0**	**398**	**1,231**	**376**	**1,247**
OTC products	Forward transactions	137	0	0	137	0	204	0
	Equity/index options	14	47	0	61	108	47	207
	Equity swaps	0	0	0	0	0	15	0
Equity/index-based transactions		**151**	**47**	**0**	**198**	**108**	**266**	**207**
Total financial derivatives		**600**	**433**	**505**	**1,538**	**2,223**	**1,865**	**2,529**

* including gold transactions

Hedging Instruments

HSBC Trinkaus uses specific derivatives (usually interest rate swaps) to hedge against market interest rate risk on financial assets (so-called fair value hedged; cf. Note 6). This hedging relationship resulted in positive market values of € 0.2 million as at 31 December 2009 (2008: € 0.0 million) as well as negative market values of € 3.2 million (2008: € 0.0 million).

The hedge result is specified in more detail in the following overview:

Profit and loss in €m	2009	2008
From hedging instruments	–0.7	0.0
From underlying transactions	0.6	0.0

60 Contingent Liabilities and Other Obligations

in €m	31.12.2009	31.12.2008
Contingent liabilities on guarantees and indemnity agreements	1,569.2	1,747.5
Irrevocable loan commitments	3,290.2	3,489.2
Total	4,859.4	5,236.7

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of € 3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of € 1.0 million (2008: € 1.6 million) is still outstanding. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are also contingently liable pro rata for fulfilment of the additional funding obligations of other partners belonging to the Association of German Banks (Bundesverband deutscher Banken e. V.). Contingent liabilities also include € 1.3 million for early retirement schemes.

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 90.3 million (2008:€ 61.4 million) as at the balance sheet date.

in €m	31.12.2009	31.12.2008
Up to 1 year	27.7	24.3
Over 1 year up to 5 years	35.7	33.4
Over 5 years	26.9	3.7
Total commitments arising from leasing and rental contracts	90.3	61.4

The bank outsourced to external third parties the operation of two data-processing centres, the information centre for card payments and the establishment and operation of an account information centre in accordance with section 24 c German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

61 Assets Pledged as Collateral

Securities with a nominal value of € 999.8 million (2008: € 1,066.3 million) were deposited as collateral for transactions on Eurex and for securities lending transactions (cf. Note 31).

Debt instruments with a nominal value of € 4,879.1 million (2008: € 4,155.5 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 Trust Activities

Trust activities may not be shown on a bank's balance sheet. As an indication of the extent of our potential liability, the following table shows the value of off-balance-sheet trust activities:

in €m	31.12.2009	31.12.2008
Trust assets	**361.1**	**318.8**
Loans and advances to banks	158.5	125.7
Loans and advances to customers	51.8	76.6
Investments	150.8	116.5
Trust liabilities	**361.1**	**318.8**
Deposits by banks	3.4	2.5
Customer accounts	357.7	316.3

63 ▸ Participating Interests

HSBC Trinkaus & Burkhardt AG's participating interests can be presented as follows:

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2009 € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaftfür Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	8,180 *
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	111,902	18,775
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,515	1,066
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	17,500	2,119 *
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,954	– 28
HSBC Transaction Services GmbH***	Düsseldorf	100.0	13,427	– 2,164 *
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	194 *
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	15,527 *
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,122	443
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	– 4 *
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	290	42
HSBC Global Asset Management (Switzerland) AG****	Zürich	50.0	684	10
Companies with special mandates				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	– 5,494 *
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	– 316 *
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	31	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	59	4
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	19	– 59
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	43	11
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,914*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,627	1,588
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	– 113*
Trinkaus Canada 1 GP Ltd.*****	Toronto	100.0	5	– 3

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2009 € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,288	1,127
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,490	568
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	3,077	2,310
Other companies				
HSBC Trinkaus Consult GmbH*****	Düsseldorf	100.0	5,171	–841
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	31	1
SINO AG ****	Düsseldorf	26.6	6,920	2,709

* Net income excluding profit/loss transfer
** Equities issued by private companies
*** Renamed, formerly International Transaction Services GmbH
**** Consolidated at equity
***** Figures as at 31.12.2008

64 ▸ Releasing Subsidiaries from the Disclosure Requirements of the German Commercial Code (Handelsgesetzbuch – HGB)

The following subsidiaries intend to make use of the exemption afforded by Section 264 (3) of the German Commercial Code (HGB) and will not pubish their financial statements for the year 2008:

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
- HSBC Transaction Services GmbH (vormals ITS), Düsseldorf
- DPT Deutscher Pension Trust GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- HSBC Trinkaus Private Wealth GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf

65 ▸ Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully-consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) SA, Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf – are in a position to fulfil their contractual obligations.

Moreover, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general partners or managing partners of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies and Trinkaus private equity companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided they are natural persons.

66 ▸ Staff

Annual average	2009	2008
Staff employed abroad	201	180
Staff employed in Germany	2,052	2,013
Total (including trainees)	**2,253**	**2,193**
of which:		
female members of staff	1,010	981
male members of staff	1,243	1,212

67 ▸ Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG AG Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expense:

in €m	2009	2008
Audits	0.7	0.9
Other audit or valuation services	0.3	0.2
Tax advisory services	0.2	0.0
Other services	0.1	0.2
Other	**1.3**	**1.3**

68 Business Relationships with Companies and Persons Defined as Related Parties

In accordance with our "best of both worlds" strategy, we foster intensive business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall, the consolidated income statement includes € 120.5 million (2008: € 297.3 million) in income and € 26.4 million (2008: € 54.3 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. The decline in income and expenditure is attributable in particular to lower interest income and expenses. In the 2009 financial year, interest income from other HSBC companies amounted to € 53.7 million (2008: € 233.6 million), while interest expense stood at € 15.1 million (2008: € 42.7 million).

Loans and advances to banks and customers include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Loans and advances to banks	939.3	2,049.6	0.0	0.0
Loans and advances to customers	0.2	0.5	35.4	30.6
Total	**939.5**	**2,050.1**	**35.4**	**30.6**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Deposits by banks	1,783.4	1,638.3	0.0	0.0
Customer accounts	10.3	2.1	10.0	10.6
Total	**1,793.7**	**1,640.4**	**10.0**	**10.6**

Trading assets/liabilities include the following transactions concluded with affiliated enterprises:

	Securities		Derivatives	
in €m	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Trading assets	435.2	2,203.7	681.5	1,204.7
Trading liabilities	0.0	0.0	962.6	1,213.1

Compensation of the Executive Bodies
The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Structure and Management). The following overview shows the remuneration components of the members of the Management Board and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 June 2007, information is disclosed pursuant to section 314 sentence 1 No. 6 (a) sentence 5 of the German Commercial Code (Handelsgesetzbuch – HGB).

At € 2,157.3 thousand, the fixed remuneration of all members of the Management Board was virtually unchanged compared with 2008 (€ 2,157.3 thousand). The variable share of the remuneration is € 5,715 thousand (2008: € 5,572.0 thousand). In addition, the Management Board will receive share options as a so-called long-term incentive, in accordance with a disbursement structure specified in greater detail below. This element of remuneration equates to a fair value of € 4,485.0 thousand for 2009 (2008: € 4,299.0 thousand).

Other compensation in the amount of € 85.6 thousand (2008: € 85.7 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

As in previous years, the performance-related components for 2009 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share-based compensation for 2007 is paid in three equal amounts in the next three financial years, from 2009 through 2011, in each case after the announcement of the HSGB Group's result for the year. This provision was modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. Of the shares allocated in 2010 as a variable component for the year 2009, the payments will be transferred in two equal instalments in the second and third years (in other words in 2012 and 2013) after the commitment.

Provisions totalling € 11.1 million (2008: € 9.8 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 8 June 2010, the compensation of the Supervisory Board will be € 1,122,838.37 (2008: € 1,160,250.00). The members of the Advisory Board received remuneration totalling € 353,100.00 (2008: € 331,300.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 301,791.38 (2008: € 396,991.38). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled € 4.4 million (2008: € 4.5 million). Provisions totalling € 34.5 million (2008: € 41.5 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 69.

Advances and loans were not granted to members of the Supervisory Board and the Management Board (2008: loans in the amount of € 44,487.66 were granted to members of the Management Board). Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

69 ▸ Share-based Payments

Breakdown of the Share Option Scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2009	Number of option rights 31.12.2008
SAYE 2004 (5Y)	01.08.2004	3.21	8.50	–	25,358
SAYE 2005 (5Y)	01.08.2005	3.00	8.42	34,175	50,400
SAYE 2006 (3Y/5Y)	01.08.2006	2.60/2.67	9.59	3,502	52,573
SAYE 2007 (3Y/5Y)	01.08.2007	2.90/2.99	9.08	34,797	80,821
SAYE 2008 (1Y3Y/5Y)	01.08.2008	2.49/2.66/2.77	7.55	53,472	281,944
SAYE 2009 (1Y/3Y/5Y)	01.08.2009	1.67/1.59/1.50	3.64	995,110	–
Total				1,121,056	491,096

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on 1 August of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2009 was € 7.15 (1 August 2008: €10.62).

On account of the capital increase conducted by HSBC Holdings plc in April 2009, the exercise prices of all current plans have been adjusted.

Development of the Share Option Scheme

	Type	Number of option rights	Gewichteter Ausübungspreis in €
Balance as at 01.01.2009	SAYE 2004–2008	491,096	9.37
Granted in the course of the year	SAYE 2009	995,110	3.64
Exercised in the course of the year	SAYE 2004 (5J)/ SAYE 2006 (3J)/ SAYE 2008 (1J)	101,330	8.96
Forfeited in the course of the year	SAYE 2005–2009	263,820	7.80
Balance as at 31.12.2009	SAYE 2005–2009	1,121,056	4.16
of which outstanding option rights		1,116,565	
of which exercisable option rights		4,491	

The staff expenses to be taken into account in the year under report are € 0.8 million (2008: € 0.5 million).

Breakdown of the Share-Participation Scheme

As in the previous year, performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc in 2007. It can be broken down as follows:

in €m	Performance-related remuneration in HSBC shares	
	For financial year 2009	For financial year 2008
Maturing in March 2011	0.0	0.0
Maturing in March 2012	5.7	10.7
Maturing in March 2013	5.7	0.0
Total:	**11.4**	**10.7**

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 2.2 million (2008: € 4.7 million). The corresponding liability for share-based payments amounts to € 10.4 million (2008: € 7.3 million).

70 ▸ Statement on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the "Commission of the German Corporate Governance Code" and made this permanently available to the shareholders, pursuant to section 161 German Stock Corporation Act (AktG).

71 Offices held by Members of the Management Board

As at 31 December 2009, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz (Chairman)	
Position	Company
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Deputy Member of the Board of Directors	L-Bank, Karlsruhe
Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt am Main
Member of the Board of Directors	KfW-Bankengruppe, Frankfurt am Main

Paul Hagen	
Position	Company
Chairman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Supervisory Board	Falke-Bank AG i. L., Düsseldorf
Member of the Supervisory Board	Düsseldorfer Hypothekenbank AG, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
Member of the Advisory Board	RWE Supply & Trading GmbH, Essen

Dr. Olaf Huth	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxemburg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxemburg

Carola Gräfin v. Schmettow	
Position	Company
Chairwoman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Chairwoman of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

72 ▸ Offices Held by Other Members of Staff

As at 31 December 2009, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Member of the Executive Committee)	
Position	Company
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw, Poland

Silke Büdinger	
Position	Company
Member of the Board of Directors	Luxemburger Kapitalanlagegesellschaft SA, Wasserbillig, Luxembourg

Thies Clemenz	
Position	Company
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zürich, Switzerland

Robert Demohn	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Bernd Franke	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Vice-President of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zürich, Switzerland

Gerd Goetz	
Position	Company
Member of the Supervisory Board	SINO AG, Düsseldorf
Member of the Supervisory Board	TICK-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf

Dr. Detlef Irmen	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Wolfgang Jakobs	
Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Marc Landvatter	
Position	Company
Deputy Chairman of the Supervisory Board	Algopool InvAG, Cologne

Dr. Christiane Lindenschmidt	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Dr. Manfred v. Oettingen	
Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Hans-Joachim Rosteck	
Position	Company
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Heiko Schröder	
Position	Company
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Ulrich W. Schwittay	
Position	Company
Member of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf

Norbert Stabenow	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

73 ▸ Offices Held by Supervisory Board Members

The members of our Supervisory Board also sit on the statutory supervisory boards and the comparable control bodies listed below:

Dr. Sieghardt Rometsch (Chairman)	
Position	Company
Chairman of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Member of the Supervisory Board	Lanxess AG, Leverkusen
Member of the Board of Directors	HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
Member of the Board of Directors	Management Partner GmbH, Stuttgart

Prof. Dr. h. c. Ludwig Georg Braun	
Position	Company
Chairman of the Supervisory Board	Aesculap AG, Tuttlingen
Chairman of the Supervisory Board	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund
Member of the Supervisory Board	Aesculap Management AG, Tuttlingen
Member of the Supervisory Board	Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
Member of the Supervisory Board	Stihl AG, Waiblingen
Member of the Supervisory Board	Findos Investor Fund I GmbH & Co. KG, Munich
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
President of the Board of Directors	B. Braun Milano S.p.A., Milan, Italy
Vice President of the Board of Directors	B. Braun Holding AG, Lucerne, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Lucerne, Switzerland
Member of the Board of Directors	B. Braun Medical Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia
Member of the Board of Directors	B. Braun Medical International S.L., Barcelona, Spain
Member of the Board of Directors	B. Braun Medical S.A., Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical S.A., Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main
Member of the Board of Directors	Wilhelm Werhahn KG, Neuss

Dr. Hans Michael Gaul	
Position	Company
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	EWE Aktiengesellschaft, Oldenburg
Member of the Supervisory Board	Siemens AG, Munich
Member of the Supervisory Board	VNG – Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

Wolfgang Haupt	
Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	Pfleiderer AG, Neumarkt

Harold Hörauf	
Position	Company
Chairman of the Supervisory Board	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e. V., Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Pensionsfonds des Bankgewerbes AG, Berlin

Professor Dr. Ulrich Lehner	
Position	Company
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche AG, Stuttgart
Member of the Supervisory Board	Porsche Automobil Holding SE, Stuttgart
Member of the Supervisory Board	Henkel Management AG, Düsseldorf
Member of the Supervisory Board	ThyssenKrupp AG, Düsseldorf
Member of the Shareholders' Committee	Henkel AG & Co. KGaA, Düsseldorf
Member of the Board of Directors	Novartis AG, Basel, Switzerland
Member of the Advisory Board	Dr. August Oetker KG, Bielefeld

Hans-Jörg Vetter	
Position	Company
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Chairman of the Supervisory Board	LBBW Equity Partners Verwaltungs GmbH, München
Chairman of the Supervisory Board	LBBW Equity Partners GmbH & Co. KG, München
Member of the Supervisory Board	Deutscher Sparkassenverlag GmbH, Stuttgart
Member of the Supervisory Board	Stiftung Schloss Neuhardenberg GmbH, Berlin
Deputy Chairman of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main

74 ▶ Publication

The Annual Report will be released for publication on 15 April 2010. The release for publication was approved by the Management Board in its meeting on 12 March 2010.

Düsseldorf, 5 February 2010

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that it can be recognized with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the Group's business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that the audit provides a sufficiently sound basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB and give, under the terms of these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 12 February 2010

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner
Auditor

Signed by Bormann
Auditor

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2009	2008	2007	2006	2005*
Total assets	**18,728.6**	**22,205.7**	**21,066.9**	**18,676.4**	**15,948.1**
Assets					
Cash reserve	177.0	139.5	332.3	436.3	798.6
Loans and advances to banks	2,429.4	2,979.7	4,117.0	4,440.1	4,561.9
Loans and advances to customers	2,687.5	4,082.6	4,272.9	3,173.1	2,554.0
Net loan impairment and other credit risk provisions	–42.9	–21.4	–16.2	–17.0	–26.1
Trading assets	10,005.7	12,482.6	10,436.8	9,044.0	6,470.6
Financial assets	3,126.1	2,118.8	1,568.2	1,437.6	1,472.2
Interests in associates	10.6	10.1	15.2	1.5	0.0
Property, plant and equipment	83.3	81.1	196.3	80.4	78.0
Intangible assets	44.1	56.0	12.3	9.3	7.9
Taxation recoverable	13.0	17.5	54.8	2.5	1.8
current	13.0	13.0	54.8	2.5	1.4
deferred	0.0	4.5	0.0	0.0	0.4
Other assets	194.8	259.2	77.3	68.6	29.2
Liabilities					
Deposits by banks	2,697.6	2,709.1	2,532.7	1,495.7	1,424.7
Customer accounts	9,062.1	11,592.8	10,283.2	8,861.4	7,139.6
Certificated liabilities	10.0	10.0	10.0	29.8	34.6
Trading liabilities	5,196.7	6,152.9	6,488.4	6,683.6	5,883.9
Provisions	152.2	117.4	112.4	113.0	103.5
Taxation**	67.7	85.1	106.0	62.0	128.1
current**	61.1	81.5	48.4	25.7	80.7
deferred	6.6	3.6	57.6	36.3	47.4
Other liabilities	95.3	108.2	106.8	105.4	91.0
Subordinated capital	384.4	458.7	458.7	440.6	308.1
Shareholders' equity**	1,062.5	955.0	968.7	884.9	834.6
Minority interests	0.1	16.5	0.0	0.0	0.0
Income statement					
Net interest income	143.3	139.5	110.0	88.6	73.7
Net loan impairment and other credit risk provisions	22.4	4.5	–3.5	–5.2	–9.7
Share of profit in associates	0.6	0.5	6.4	2.5	0.9
Net fee income	346.2	347.6	318.1	281.8	264.4
Net trading income	117.9	98.2	100.1	104.0	74.3
Administrative expenses**	400.8	384.2	334.0	298.6	287.6
Other operating income/expenses	11.6	3.5	1.3	–1.0	0.8
Operating profit	196.4	200.6	205.4	182.5	136.2
Income from financial assets	–24.0	–50.0	1.9	6.5	49.1
Income from derivatives in the bank book	5.1	–11.1	0.0	0.0	0.0
Other net income	–13.8	–1.3	–0.1	0.5	8.2
Profit before taxes	163.7	138.2	207.2	189.5	193.5
Tax expenses**	54.5	48.6	63.2	74.9	76.1
Net profit for the year	109.2	89.6	144.0	114.6	117.4

* Up to and including 2005 inflows and outflows of liquidity from repo and securities lending transactions are reported under loans and advances to banks or customers/deposits by banks.
** The prior-year figures were adjusted retrospectively in 2008 pursuant to IAS 8 as a result of the first-time application of IFRIC 11, Group and Treasury Share Transactions.

ANNEX D

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2011

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2011 is reproduced on the following pages and separately paginated (23 pages, from page D - 2 through page D - 24).

Interim Report as at 31 March 2011

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01. to 31.03.2011	01.01. to 31.03.2010	Change in %
Income statement in €m			
Operating revenues	176.6	156.7	12.7
Net loan impairment and other credit risk provisions	−5.5	−0.7	> 100.0
Administrative expenses	122.1	112.4	8.6
Operating profit	60.0	53.4	12.4
Pre-tax profit	63.1	55.0	14.7
Tax expenses	21.0	17.8	18.0
Net profit for the year	42.1	37.2	13.2
Ratios			
Cost:income ratio of usual business activity in %	68.0	67.4	–
Return on equity before tax in % (projected for the full year)	21.1	22.1	–
Net fee income in % of operating revenues	54.1	52.8	–
No. of employees at the reporting date	2,504	2,287	9.5
Share information			
Average number of shares in circulation in million	28.1	26.1	7.7
Earnings per share in €	1.50	1.43	4.9
Share price at the reporting date in €	94.0	103.5	−9.2
Market capitalisation at the reporting date in €m	2,641	2,701	−2.2

	31.03.2011	31.12.2010	Change in %
Balance sheet figures in €m			
Total assets	20,169	18,584	8.5
Shareholders’ equity	1,301	1,290	0.9
Regulatory ratios			
Tier 1 in €m	1,042	1,058	−1.5
Regulatory capital in €m	1,379	1,397	−1.3
Risk-weighted assets in €m	8,175	8,113	0.8
Tier 1 ratio in %	12.8	13.0	–
Regulatory capital ratio in %	16.9	17.2	–

Ladies and Gentlemen,

After the severe recession in 2009, the notable recovery made by the global economy last year continued in the first quarter of this year as well. Since Germany continues to benefit in particular from this favourable trend as an export-oriented nation, it is to be assumed that the economic upswing will continue in the months ahead. Alongside the export sector, stronger domestic demand is also contributing to the persistently positive trend.

At the same time, there is a threat of inflationary pressure increasing worldwide as a result of higher commodity prices, to which the European Central Bank (ECB) reacted at the beginning of April with an initial 25 bp increase in the key interest rate to 1.25%. It remains to be seen to what extent this step will have a lasting influence on the performance of the capital markets in particular. The economic repercussions of the catastrophic earthquake in Japan and the political unrest in North Africa and the Middle East are not yet completely foreseeable either.

HSBC Trinkaus again reported a good quarterly result. Operating profit for the first three months of the financial year was increased by 12.4% from €53.4 million the previous year to €60.0 million. Pre-tax profit grew in the same period by 14.7% from €55.0 million to €63.1 million. This performance is essentially attributable to our stable and successful business model which, with its clear focus on our target groups "high net worth private clients", "corporate clients" and "institutional clients" supported by risk-aware trading, continues to prove itself. It also shows that our accelerated growth strategy has started to translate into success. We were able to create a solid base for our plans for growth last summer with our successful capital increase. Our integration into the HSBC Group continues to provide our client-oriented strategy with significant support.

Profitability

The earnings components of the operating result can be summarised as follows:

- Net interest income improved 6.7% to €33.3 million (2010: €31.2 million) mainly as a result of the increase in volumes in the lending business. At the same time, the effect of slightly lower margins in the lending business was almost compensated by higher deposit margins.

- Net loan impairment and other credit risk provisions recorded a release of €5.5 million (2010: €0.7 million). Thanks to the economic recovery, the credit rating of our credit portfolio improved further. We also sold a problematic exposure and we were able to release or reduce impairments carried out previously. No further additions to individually assessed impairments were required. We made no changes to collectively assessed impairments. Our conservative orientation is therefore unchanged in relation to the assessment of default risks.

- At €95.5 million, net fee income was up 9.6% on the prior-year result of €87.1 million. Our extraordinarily good performance in the foreign exchange and derivatives business was mainly responsible for this increase. The increase in transactions arranged in the HSBC Group had a particular impact here. We were also able to improve our result again in the securities business, the key factor of success in our fee-based business, benefiting in particular from an increase in transaction revenues on account of higher volumes.

- Net trading income grew by 6.6% to €43.9 million (2010: €41.2 million), due essentially to gains on bond holdings and interest rate derivatives. The constant tightening of credit spreads contributed to the good result. Money market trading was also able to achieve a favourable result owing to our still outstanding liquidity position. We also recorded growth in trading with equities and equity/index derivatives, our most important source of earnings in net trading income, compared to the prior period. Our retail products made the most significant contribution to this growth. Risk management in trading with knock-out products has proven itself given the strong stock market fluctuations on account of the earthquake catastrophe in Japan. Our business with discount and bonus certificates benefited from strong demand. In trading with index futures and options, we were again able to improve on the prior-year result. On the other hand, we reported slight valuation losses on derivatives in the bank book for hedging strategic interest rate positions.

- Other operating income includes significant rental income from our real estate development project in Australia, although this is set against corresponding interest expense. Net other income, at €3.5 million, was almost at the prior-year level of €3.9 million.

- Administrative expenses were up 8.6% to €122.1 million (2010: € 112.4m), mainly reflecting the increase in the headcount, which exceeded the 2,500 mark for the first time within the scope of our growth strategy. Moreover, the improved result against the previous year also led to higher performance-related remuneration. At 68.0%, the cost:income ratio remains within the adequate range for our business model of 65% to 70%.

- Income from financial assets was almost at the prior-year level of a gain of €3.4 million (2010: €3.2 million). Whereas isolated minor write-downs on financial assets still had to be carried out the previous year, there were no further write-down requirements in the quarter under review.

The asset situation

Total assets were up 8.5% compared to the end of 2010 to €20.2 billion. Accounting for over 50% of total assets, customer deposits still represent the Bank's main source of financing. We regard this as a clear commitment on the part of our clients to our solid business policy, which is reflected not least in our sustained earnings power and our extraordinarily good "AA" rating confirmed by Fitch in April 2011. At €1,301 million, shareholders' equity was slightly up on the level reported at the end of 2010 (€1,290 million). The valuation reserve for financial instruments declined in the first quarter by €22 million to €103 million and in the same period, actuarial losses resulting from the valuation of pension provisions stood at €2 million. The increase in loans and advances to customers reflects the expansion of our lending business in particular with MME clients as part of our growth strategy.

The financial position

The Bank's financial position is still characterised by excellent liquidity. The minimum regulatory requirements were exceeded by far with an average of 2.2 for the end-of-month positions. Customer accounts at €11.1 billion – still our most important source of financing – are far higher than the year-end figure of €10.1 billion. We continue to invest a substantial part of this liquidity in eligible bonds issued by German federal states. HSBC Trinkaus' capital ratio stands at 16.9% after 17.2% at the end of the year. Its Tier 1 ratio is 12.8% and contains no hybrid capital components. In addition to the fact that we already fulfil the higher capitalisation requirements which will apply in the years ahead according to the new Basel III provisions, there is adequate scope for further business expansion.

Outlook

The persistently positive signals coming from the economy despite the recent catastrophes on the one hand, and the good starting position enjoyed by German companies on the other make us quite optimistic for the future. With its successful business model, HSBC Trinkaus regards itself as being in an ideal position in this environment. We see the unique combination in the German banking landscape of the traditional values of the honourable businessman, such as trust, responsibility and sustainability, and the international service capacity and capital strength of a global financial services provider, the HSBC Group, as a guarantee for our success. We want to use this position of strength in the years ahead to accelerate growth and increase market share further across all our operating divisions. The proceeds from the capital increase carried out last summer will also be used for this. Our processes and structures have already been geared towards this and are constantly being optimised. In order to reach this goal, we also want to further increase the number of our employees, even though we want to take tighter control of the growth in administrative expenses. The new regulatory provisions, which also envisage a number of new regulatory reports alongside increased capital backing and larger liquidity cushions, will reduce the profitability of the banking sector overall. We are aware that our growth strategy can entail higher risks in this environment, but we also see greater opportunities for the Bank. In any case, we remain guided by the proven principle of growing with our clients, not with our risks.

Düsseldorf, May 2011

The Management Board

Andreas Schmitz	Paul Hagen	Dr. Olaf Huth	Carola Gräfin v. Schmettow

Consolidated Balance Sheet

Assets in €m	Notes	31.03.2011	31.12.2010	Change in %
Cash reserve		136.0	336.1	–59.5
Loans and advances to banks	(8)	1,690.0	1,402.9	20.5
Loans and advances to customers	(9)	3,567.5	3,089.6	15.5
Net loan impairment provision	(10)	–36.0	–49.1	–26.7
Trading assets	(11)	10,840.3	10,130.6	7.0
Financial assets	(12)	3,545.9	3,305.9	7.3
Interests in associates		38.1	38.0	0.3
Property, plant and equipment		83.7	83.1	0.7
Intangible assets		36.8	38.9	–5.4
Taxation recoverable		4.3	4.3	0.0
current		4.3	4.3	0.0
deferred		0.0	0.0	0.0
Other assets		262.7	203.7	29.0
Total assets		**20,169.3**	**18,584.0**	**8.5**

Liabilities in €m	Notes	31.03.2011	31.12.2010	Change in %
Deposits by banks	(13)	1,901.9	1,180.4	61.1
Customer accounts	(14)	11,072.0	10,148.0	9.1
Certificated liabilities		10.0	10.0	0.0
Trading liabilities	(15)	5,136.4	5,200.1	–1.2
Provisions		90.4	96.5	–6.3
Taxation		102.8	66.7	54.3
current		100.8	52.6	91.6
deferred		2.1	14.1	–85.1
Other liabilities		201.5	214.1	–5.9
Subordinated capital		353.4	378.4	–6.6
Shareholders’ equity		1,300.7	1,289.7	0.9
Share capital		75.4	75.4	0.0
Capital reserve		347.5	354.0	–1.8
Retained earnings		626.8	627.2	–0.1
Valuation reserve for financial instruments		103.4	125.3	–17.5
Valuation reserve for actuarial profits and losses		–32.1	–29.8	7.7
Valuation reserve from currency conversion		–1.8	–1.8	0.0
Net profit including profit brought forward		181.5	139.4	–
Minority interests		0.1	0.1	0.0
Total equity and liabilities		**20,169.3**	**18,584.0**	**8.5**

Breakdown of consolidated shareholders' equity and subordinated capital

in €m	31.03.2011	31.12.2010
Share capital	75.4	75.4
Capital reserve	347.5	354.0
Retained earnings	626.8	627.2
Valuation reserve for financial instruments	103.4	125.3
Valuation reserve for actuarial profits and losses	–32.1	–29.8
Valuation reserve from currency conversion	–1.8	–1.8
Net profit including profit brought forward	181.5	139.4
Consolidated shareholders' equity	**1,300.7**	**1,289.7**
Subordinated liabilities	253.4	284.4
Participatory capital	100.0	100.0
Consolidated subordinated capital	**353.4**	**384.4**
Total	**1,654.0**	**1,674.1**

Consolidated statement of changes in equity

in €m	2011	2010
Consolidated shareholders' equity as at 01.01.	**1,289.7**	**1,062.5**
Distribution	0.0	0.0
Capital increase	0.0	0.0
Net profit	42.1	37.2
Gains/losses not recognised in the income statement	–24.2	18.1
Share-based compensation settled in the form of equity instruments	–0.4	6.8
Transfer of shares to employees in connection with share-based remuneration schemes	–6.5	–6.4
Consolidated shareholders' equity as at 31.03.	**1,300.7**	**1,118.2**

Consolidated Income Statement

in €m	Notes	01.01. to 31.03.2011	01.01. to 31.03.2010	Change in %
Interest income		51.5	48.0	7.3
Interest expense		18.2	16.8	8.3
Net interest income	(1)	33.3	31.2	6.7
Net loan impairment and other credit risk provisions	(2)	–5.5	–0.7	> 100.0
Share of profit in associates		0.1	0.1	0.0
Fee income		174.2	142.3	22.4
Fee expenses		78.7	55.2	42.6
Net fee income	(3)	95.5	87.1	9.6
Net trading income	(4)	43.9	41.2	6.6
Administrative expenses	(5)	122.1	112.4	8.6
Income from financial assets		3.4	3.2	6.2
Net other income	(6)	3.5	3.9	–10.3
Pre-tax profit		**63.1**	**55.0**	**14.7**
Tax expenses		21.0	17.8	18.0
Net profit for the year		**42.1**	**37.2**	**13.2**
Profit/loss attributable to minority shareholders		0.0	0.0	0.0
Profit/loss attributable to HSBC Trinkaus shareholders		42.1	37.2	13.2

Earnings per share

in €	01.01. to 31.03.2011	01.01. to 31.03.2010	Change in %
Undiluted earnings per share	1.50	1.43	4.9
Diluted earnings per share	1.50	1.43	4.9

Comprehensive income for the period

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Net income for the year	42.1	37.2
Gains/losses not recognised in the income statement	–24.2	18.1
of which from financial instruments	–21.9	22.1
of which from actuarial results	–2.3	–3.9
of which from currency conversion	–0.0	–0.1
Total	**18.0**	**55.3**
Attributable to		
Minority interests	0.0	0.0
HSBC Trinkaus shareholders	18.0	55.3

Consolidated cash flow statement

in €m	2011	2010
Cash and cash equivalents as at 01.01.	**336.1**	**177.0**
Cash flow from operating activities	–139.8	–18.3
Cash flow from investing activities	–35.3	–1.3
Cash flow from financing activities	–25.0	0.0
Cash and cash equivalents as at 31.03.	**136.0**	**157.4**

The cash flow statement calculated according to the indirect method shows the position and movements in cash and cash equivalents of the HSBC Trinkaus Group. Reported cash and cash equivalents correspond to the "Cash reserve balance sheet" item, which comprises cash in hand plus balances at central banks.

Notes to the Consolidated Income Statement and the Consolidated Balance Sheet

This Interim Report for the HSBC Trinkaus Group as at 31 March 2011 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. The report takes particular account of the requirements of IAS 34 relating to interim financial reporting. Furthermore, the report takes into consideration the requirement of an interim management statement pursuant to Section 37x German Securities Trading Act (WpHG). No review of the Interim Report was carried out by external auditors.

When drawing up this Interim Report, including the comparable figures for the prior-year periods, we applied the same accounting and valuation methods as in the 2010 consolidated financial statements.

All changes to standards and interpretations, the early application of which we have dispensed with, are of no or only minor significance for our consolidated financial statements.

1 Net interest income

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Interest income	**51.5**	**48.0**
from loans and advances to banks	4.2	6.0
Money market transactions	3.3	5.1
Other interest-bearing receivables	1.0	0.9
from loans and advances to customers	19.8	17.7
Money market transactions	3.6	3.6
Other interest-bearing receivables	16.2	14.1
from financial assets	27.5	24.3
Interest income	**27.2**	**23.9**
Dividend income	0.1	0.2
Income from subsidiaries	0.2	0.2
Interest expense	**18.2**	**16.8**
from deposits by banks	3.7	4.0
Money market transactions	2.0	2.7
Other interest-bearing deposits	1.8	0.8
from customer accounts	10.0	8.2
Money market transactions	3.1	2.2
Other interest-bearing deposits	7.0	6.0
From securitised liabilities	0.1	0.1
From subordinated capital	4.4	4.5
Net interest income	**33.3**	**31.2**

2 Net loan impairment and other credit risk provisions

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Additions	0.0	0.0
Reversals	5.5	0.7
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.0
Total	**–5.5**	**–0.7**

3 ▸ Net fee income

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Securities transactions	62.6	60.5
Foreign exchange transactions and derivatives	19.9	9.3
Issuing and structuring business	1.9	3.7
Foreign business	3.4	3.3
Lending	2.9	2.3
Payments	1.6	1.5
Investment banking	0.7	3.9
Alternative investments	0.4	0.4
Other fee-based business	2.1	2.2
Total	95.5	87.1

4 ▸ Net trading income

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Equity and equity/index derivatives	18.7	16.0
Bonds and interest rate derivatives	23.3	22.9
Foreign exchange	2.2	3.9
Derivatives held in the banking book	–0.4	–1.6
Total	43.9	41.2

Interest and dividend income attributable to trading activities – shown as the difference between the interest and dividend revenues of trading positions and the corresponding refinancing interest – is included in trading profit.

5 Administrative expenses

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Staff expenses	75.3	68.2
Wages and salaries	65.3	59.3
Social security costs	7.1	6.3
Expenses for retirement pensions and other employee benefits	2.9	2.6
Other administrative expenses	40.9	38.4
Depreciation of property, plant and equipment and of intangible assets	6.0	5.8
Total	**122.1**	**112.4**

6 Net other income / expenses

in €m	01.01. to 31.03.2011	01.01. to 31.03.2010
Other operating income	4.2	7.4
Other operating expenses	0.8	3.5
Other operating income	**3.4**	**3.9**
Other income	0.1	0.0
Other expenses	0.1	0.0
Other net income	**0.1**	**0.0**
Net other income	**3.5**	**3.9**

7 Segment reporting

in €m	Private Banking	Corporate Banking	Institut. Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income						
31.03.2011	2.2	13.5	0.7	−0.2	17.1	33.3
31.03.2010	3.0	12.5	0.6	0.7	14.4	31.2
Net loan impairment and other credit risk provisions						
31.03.2011	0.2	2.3	0.2	0.1	−8.3	−5.5
31.03.2010	0.3	2.6	0.4	0.0	−4.0	−0.7
Share of profit in associates						
31.03.2011	0.0	0.0	0.0	0.0	0.1	0.1
31.03.2010	0.0	0.0	0.0	0.0	0.1	0.1
Net fee income						
31.03.2011	25.2	26.2	41.7	0.3	2.1	95.5
31.03.2010	21.6	24.2	34.0	2.0	5.3	87.1
Operative trading income						
31.03.2011	0.0	−0.1	1.3	27.5	15.6	44.3
31.03.2010	0.0	−0.1	3.6	23.9	15.4	42.8
Administrative expenses						
31.03.2011	19.2	23.1	28.4	14.0	37.4	122.1
31.03.2010	17.4	20.6	24.6	13.6	36.2	112.4
of which depreciation and amortisation						
31.03.2011	0.5	0.4	0.2	0.2	4.7	6.0
31.03.2010	0.4	0.3	0.2	0.1	4.8	5.8
Other operating income						
31.03.2011	0.0	0.0	0.0	0.0	3.4	3.4
31.03.2010	0.1	0.0	0.0	0.0	3.8	3.9
Operating profit						
31.03.2011	**8.0**	**14.2**	**15.1**	**13.5**	**9.1**	**59.9**
31.03.2010	**7.0**	**13.4**	**13.2**	**13.0**	**6.8**	**53.4**
Income from financial assets						
31.03.2011	0.0	0.0	0.0	0.0	3.4	3.4
31.03.2010	0.0	0.0	0.0	0.0	3.2	3.2
Income from derivatives in the bank book						
31.03.2011	0.0	0.0	0.0	0.0	−0.4	−0.4
31.03.2010	0.0	0.0	0.0	0.0	−1.6	−1.6
Other net income						
31.03.2011	0.0	0.0	0.0	0.0	0.1	0.1
31.03.2010	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit						
31.03.2011	**8.0**	**14.2**	**15.1**	**13.5**	**12.2**	**63.0**
31.03.2010	**7.0**	**13.4**	**13.2**	**13.0**	**8.4**	**55.0**
Taxation						
31.03.2011	2.5	4.5	4.8	4.2	5.0	21.0
31.03.2010	2.2	4.3	4.2	4.2	2.9	17.8
Net profit for the year						
31.03.2011	**5.5**	**9.7**	**10.3**	**9.3**	**7.2**	**42.0**
31.03.2010	**4.8**	**9.1**	**9.0**	**8.8**	**5.5**	**37.2**

Against the backdrop of the favourable economic trend in Germany, all segments were able to further improve on their good prior-year results. The growth strategy which the Bank embarked upon in 2010 has therefore also started to translate into success.

The highest percentage increase in results was recorded by the Private Banking and Institutional Clients segments. In addition to a strong improvement in revenues in the securities business, the Private Banking business also reported major revenue growth in the asset management business. The Institutional Clients segment increased revenues significantly in its core lines of business asset management, fixed income and equities business, more than compensating for the decline in client-oriented trading and in the sale of structured products. The strong prior-year results in the Corporate Clients segment, which resulted in particular from the lead management of capital increases, could not be repeated. However, stronger revenues in asset management and the foreign exchange business as well as an increase in net interest income in the lending business as a result of higher volumes more than compensated for this decline. Thanks to the favourable trend in earnings in equity derivatives and equities trading, as well as the still extremely successful Treasury activities, the trading departments reported a stronger result than in the previous year.

The increase in the Bank's administrative expenses is due to the growth in the workforce to 2,504 employees as well as IT investments, which are expected to further improve the Bank's competitive position. Accruals for performance-related remuneration were also higher as a result of the growth in earnings. The Bank has taken measures to limit the growth in expenses in 2011.

We show standardised risk expenses in the segments (mark-ups on credit risks depending on credit rating). The difference compared with the income statement is taken into consideration in the Central Divisions/Consolidation column.

8 ▸ Loans and advances to banks

in €m	31.03.2011	31.12.2010
Current accounts	670.9	328.3
Money market transactions	846.8	955.8
of which overnight money	66.9	78.6
of which term deposits	779.9	877.2
Other loans and advances	172.3	118.8
Total	**1,690.0**	**1,402.9**
of which to domestic banks	538.9	398.4
of which to foreign banks	1,151.1	1,004.5

9 ▸ Loans and advances to customers

in €m	31.03.2011	31.12.2010
Current accounts	1,211.4	1,024.2
Money market transactions	902.6	631.9
of which overnight money	63.8	67.2
of which term deposits	838.8	564.7
Loan accounts	1,406.7	1,412.4
Other loans and advances	46.8	21.1
Total	**3,567.5**	**3,089.6**
of which domestic customers	2,376.0	1,811.1
of which foreign customers	1,191.5	1,278.5

10 ▸ Net loan impairment and other credit risk provisions

in €m	31.03.2011	31.12.2010
Net loan impairment provision	36.0	49.1
Provisions for credit risks	5.6	5.7
Net loan impairment and other credit risk provisions	**41.6**	**54.8**

in €m	Impairments/provisions: Individually assessed 2011	2010	Collectively assessed 2011	2010	Total 2011	2010
As at 01.01.	40.3	32.7	14.5	17.0	54.8	49.7
Reversals	5.5	0.7	0.0	0.0	5.5	0.7
Utilisation	7.7	0.0	0.0	0.0	7.7	0.0
Additions	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation / transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.03.	27.1	32.0	14.5	17.0	41.6	49.0

11 Trading assets

in €m	31.03.2011	31.12.2010
Bonds and other fixed-income securities	3,963.1	4,590.7
Equities and other non-fixed-income securities	880.8	1,004.4
Tradable receivables	2,101.2	2,334.8
Positive market value of derivatives	1,656.8	1,828.7
Reverse repos	2,037.7	72.3
Securities lending	0.0	0.0
Security in the derivatives business	189.8	296.2
Derivatives in hedging relationships	8.7	0.9
Derivatives held in the banking book	2.2	2.6
Total	10,840.3	10,130.6

12 Financial assets

in €m	31.03.2011	31.12.2010
Bonds and other fixed-income securities and interest rate derivatives	3,033.9	2,776.3
Equities	65.6	24.3
Investment certificates	104.8	100.1
Promissory note loans	230.9	293.6
Investments	110.7	111.6
Total	3,545.9	3,305.9

13 ▸ Deposits by banks

in €m	31.03.2011	31.12.2010
Current accounts	916.7	394.4
Money market transactions	783.3	583.5
of which overnight money	207.9	3.0
of which term deposits	575.4	580.5
Other liabilities	201.9	202.5
Total	**1,901.9**	**1,180.4**
of which domestic banks	673.1	352.7
of which foreign banks	1,228.8	827.7

14 ▸ Customer accounts

in €m	31.03.2011	31.12.2010
Current accounts	7,356.9	6,488.3
Money market transactions	3,343.2	3,332.0
of which overnight money	458.5	439.0
of which term deposits	2,884.7	2,893.0
Savings deposits	47.4	43.0
Other liabilities	324.6	284.7
Total	**11,072.1**	**10,148.0**
of which domestic customers	8,408.4	7,167.0
of which foreign customers	2,663.7	2,981.0

15 ▸ Trading liabilities

in €m	31.03.2011	31.12.2010
Negative market value of derivatives	2,019.0	2,196.4
Promissory note loans, bonds, certificates and warrants	2,871.1	2,852.7
Delivery obligations arising from securities sold short	51.7	84.1
Repos	0.0	0.0
Securities lending	13.6	4.1
Security in the derivatives business	177.8	57.0
Derivatives in hedging relationships	3.2	5.8
Total	**5,136.4**	**5,200.1**

Other Notes

16 Derivatives business

in €m	Nominal amounts with a residual maturity of Up to 1 year	1 – 5 years	More than 5 years	Total	Positive market values
Interest rate transactions					
31.03.2011	10,164	15,577	11,011	36,752	743
31.12.2010	6,505	18,614	10,602	35,721	954
Foreign exchange transactions					
31.03.2011	30,721	1,833	67	32,621	498
31.12.2010	28,586	1,780	69	30,435	450
Equity and index transactions					
31.03.2011	5,189	2,134	427	7,750	426
31.12.2010	4,454	1,912	342	6,708	35
Total					
31.03.2011	**46,074**	**19,544**	**11,505**	**77,123**	**1,667**
31.12.2010	**39,545**	**22,306**	**11,013**	**72,864**	**1,439**

Deals with both positive and negative market values are taken into account in the determination of the nominal amounts. The stated positive market values of deals represent the replacement values that may arise in the event of the default of all OTC counterparties, regardless of their individual credit rating. The values consist of current interest, foreign currency and equity/index-related deals which include a settlement risk as well as corresponding market price risks. No account is taken of netting agreements. As there is no counterparty risk on exchange-traded products and short positions, the market values of these products are not shown. Owing to the intensive cooperation in the Global Markets segment, we focus in the derivatives business on transactions with other HSBC units.

17 Market Risk

in €m	31.03.2011	31.12.2010
Interest rate risk	1.4	2.6
Credit spread risk	2.7	3.7
Currency risk	0.2	0.3
Equity/index risk	1.2	1.8
Commodities risk	0.0	0.2
Overall market risk potential	**4.5**	**4.9**

The market risk potential is calculated for all market risk categories using a standardised internal model. To measure market risk in our trading book under normal market conditions, we have been using a value-at-risk approach for many years. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. By taking correlations into consideration, the overall market risk potential is lower than the sum of the risks per risk category.

18 Contingent liabilities and other obligations

in €m	31.03.2011	31.12.2010
Contingent liabilities on guarantees and indemnity agreements	1,531.0	1,305.4
Irrevocable loan commitments	3,972.9	3,751.9
Total	**5,503.9**	**5,057.3**

NAMES AND ADDRESSES

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