REGISTRATION DOCUMENT

28 August 2009

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 fulfill 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*) or by Entschädigungseinrichtung Deutsche Banken GmbH 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	*F1*
AA	*F2*
A	*F3*
BBB	*B*
BB	*C*
B	*RD*
CCC	*D*
CC	
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 negative. (Source: www.fitchratings.com)

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 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 **International Transaction Services (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 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 78.60 % 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 78.60% 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 2008.

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

<u>The Supervisory Board</u>

The Supervisory Board consists of 15 members in accordance with the articles of association of the Issuer and pursuant to § 76 paragraph 1 of the Works Constitution Act (*Betriebsverfassungsgesetz*) 1952, of which ten members are representatives of the shareholders and five are representatives of the employees. Herbert H. Jacobi, formerly a personally liable partner of the Issuer, has been 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:	Lanxess AG, Leverkusen
Mandates in comparable control bodies:	Düsseldorf University Clinic, Düsseldorf (Chairman) HSBC Private Banking Holdings (Suisse) S.A., Geneva (Member of the Board) Management Partner GmbH, Stuttgart

Stuart **Gulliver**, London
Vice-Chairman
Executive Director,
HSBC Holdings plc, London

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

Mandates in supervisory boards:	Stihl AG, Waiblingen Stihl Holding AG & Co. KG, Waiblingen
Mandates in comparable control bodies:	Aesculap AG, Tuttlingen (Chairman) Aesculap Management AG, Tuttlingen B. Braun Holding AG, Luzern/Switzerland B. Braun Medical AG, Luzern/ Switzerland B. Braun Medical S.A., Barcelona/Spain B. Braun Medical International S.L., Barcelona/Spain B. Braun Surgical S.A., Barcelona/Spain B. Braun Milano S.p.A., Milan/Italy B. Braun Medical Industries Sdn.Bhd., Penang, Malaysia B. Braun Medical Inc., Bethlehem, USA B. Braun of America Inc. Bethlehem/USA IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman) Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main Carl-Zeiss-Stiftung, Heidenheim/Jena Findos Investor Fund I GmbH & Co. KG, Munich Wilhelm Werhahn KG, Neuss

Deniz **Erkman**[*], Krefeld
Bank Employee

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

Mandates in supervisory boards:	Evonik Industries AG, Essen IVG Immobilien AG, Bonn Siemens AG, München VNG – Verbundnetz Gas AG, Leipzig Volkswagen AG, Wolfsburg

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:	Pfleiderer AG, Neumarkt Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Private Equity M 3 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:	HSBC US Buy-Out GmbH & Co. KgaA, Düsseldorf (Chairman) Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA (Chairman)

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[*] Representatives of the employees

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Mandates in supervisory boards and comparable control bodies:	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin BVV Pensionsfonds des Bankgewerbes AG, Berlin

Oliver **Honée***, Essen
Bank Employee

Dr. Siegfried **Jaschinski**, Stuttgart
Chairman of the Management Board
Landesbank Baden-Württemberg

Mandates in supervisory boards:	Heidelberger Druckmaschinen AG, Heidelberg
Mandates in comparable control bodies:	Bundesanstalt für Finanzdienstleistungsaufsicht, Bonn DeKaBank Deutsche Girozentrale, Frankfurt am Main Deutscher Sparkassenverlag GmbH, Stuttgart KfW Kreditanstalt für Wiederaufbau, Frankfurt/Main LBBW Equity Partners GmbH & Co. KG, München (Chairman) LBBW Equity Partners Verwaltungs GmbH, München (Chairman) LBBW Immobilien GmbH, Stuttgart (Chairman) Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart (Chairman)

Dr. jur. Otto Graf **Lambsdorff**, Bonn
Attorney

Prof. Dr. Ulrich **Lehner**, Düsseldorf
Former Chairman of the Management
Henkel KGaA

Mandates in supervisory boards:	Deutsche Telekom AG, Bonn (Chairman) Dr. Ing. h.c.F. Porsche AG, Stuttgart E.ON AG, Düsseldorf Henkel Management AG, Düsseldorf Porsche Automobil Holding SE, Stuttgart ThyssenKrupp AG, Düsseldorf

* Representatives of the employees

Mandates in comparable control bodies:	Dr. August Oetker KG, Bielefeld Henkel AG & Co. KGaA, Düsseldorf Novartis AG, Basel/Switzerland

Mark **McCombe**,
HSBC Global Asset Management Ltd., London

Jörn **Wölken***, Lohmar
Bank Employee

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) (Chairman of the loan committee)

Paul **Hagen** Banker, Düsseldorf	
Mandates in comparable control bodies:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Vice-Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg Falke-Bank AG i. L., Düsseldorf Internationale Kapitalanlagegesellschaft mbH, Düsseldorf International Transaction Services GmbH, Düsseldorf (Chairman) RWE Supply & Trading GmbH, Essen SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH Düsseldorfer Hypothekenbank AG, Düsseldorf
Dr. Olaf **Huth** Banker, Wermelskirchen	
Mandates in control bodies which are comparable to the supervisory boards:	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Vice-Chairman) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Chairman) HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf HSBC Trinkaus Investment Managers SA, Luxembourg (Vice-Chairman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Carola Gräfin **von Schmettow** Banker, Düsseldorf	
Mandates in comparable control bodies:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf (chairwoman) HSBC Trinkaus Investment Managers SA, Luxembourg (chairwoman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (chairwoman) Member of the Board of Directors: HSBC Global Asset Management (France), Paris

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 € 70,000,000; it is divided into 26,100,000 bearer shares which are fully paid in.

HSBC Germany Holdings GmbH holds a direct participation in the share capital of the Issuer of 78.60%, and the Landesbank Baden Württemberg, Stuttgart, indirectly holds a participation of 20.31% 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.

13,500,000 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

Historical Financial Information

On this point, see Annex A annual financial statements and management report 2008 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2008 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2007 (consolidated financial statements pursuant to IFRS) in which the historical financial information for the fiscal years 2007 and 2008 of the Issuer are stated.

Annual Financial Statements

In this regard, see Annex A annual financial statements and management report 2008 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2008 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2007 (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 2008 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as the consolidated financial statements for the years 2008 and 2007 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 have 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 30 June 2009. 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 30 June 2009 was published, there have been no material changes in the financial position or the trading position of the Issuer.

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 2008 according to IFRS, individual financial statements 2008 according to the German Commercial Code (*Handelsgesetzbuch*), consolidated financial statements 2007 according to IFRS), as well as the interim report as of 30 June 2009 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 insprected 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 2008 (individual financial statements)

The Annual Financial Statements and Management Report 2008 (individual financial statements) are reproduced on the following pages and separately paginated (75 pages, from page A-2 through page A-76).

Annual Financial Statements and Management Report 2008

HSBC Trinkaus

Annual Financial Statements and Management Report 2008

HSBC Trinkaus & Burkhardt AG

Date of issue: April 2009

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Contents

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 [1] 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 Trinkaus Real Estate GmbH [2] Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxemburg KG Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	Trinkaus Private Equity Management GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
International Transaction Services GmbH Düsseldorf		

1) Previously HSBC Investments Deutschland GmbH
2) Previously HSBC Trinkaus & Burkhardt Immobilien GmbH

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 legal independent 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 2008 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 plc 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 members.

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 form.

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 17 June 2008, the Management Board has the right to buy and sell its own shares for the purpose of securities trading 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 2009.

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 members of the Management Board or employees 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 Committee of the Supervisory Board. The members of the Personnel Committee of the Supervisory Board in the 2008 financial year were Dr. Sieghardt Rometsch (Chairman), Harold Hörauf and Stuart Gulliver. The Personnel Committee met five times in the 2008 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and performance-related components as well as individually guaranteed pension payments. The fixed amounts are paid in 12 equal monthly instalments and examined annually by the Personnel Committee. There is no obligation to adjust the fixed compensation. The performance-related components are defined by the Personnel Committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as a combination of both. The cash component amounts to at least 50% of the variable compensation. The share-based compensation for 2007 will be paid out in three equal instalments in 2009, 2010 and 2011, in each case after the announcement of the net profit for the year of the HSBC Group. This practice has been modified for 2008. The allocated shares will no longer be paid out in three instalments, but entirely in the spring of 2012. The payout of the performance-related remuneration is subject to continued service for the Bank at the expected time of payment. No share options are granted to the members of the Management Board of the Bank.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2008 financial year can be found in the Notes.

The compensation structure for members of the Supervisory Board is governed in the Articles of Association of HSBC Trinkaus & Burkhardt AG. In addition to the reimbursement of their expenses and the value-added tax accruing on Supervisory Board activities, each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000.00 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 compensation. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the amounts stated, provided the respective committee has met at least once in the financial year. 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 2008 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 supported by Mr. Florian Fautz, Mr. Trevor Gander 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
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
International 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

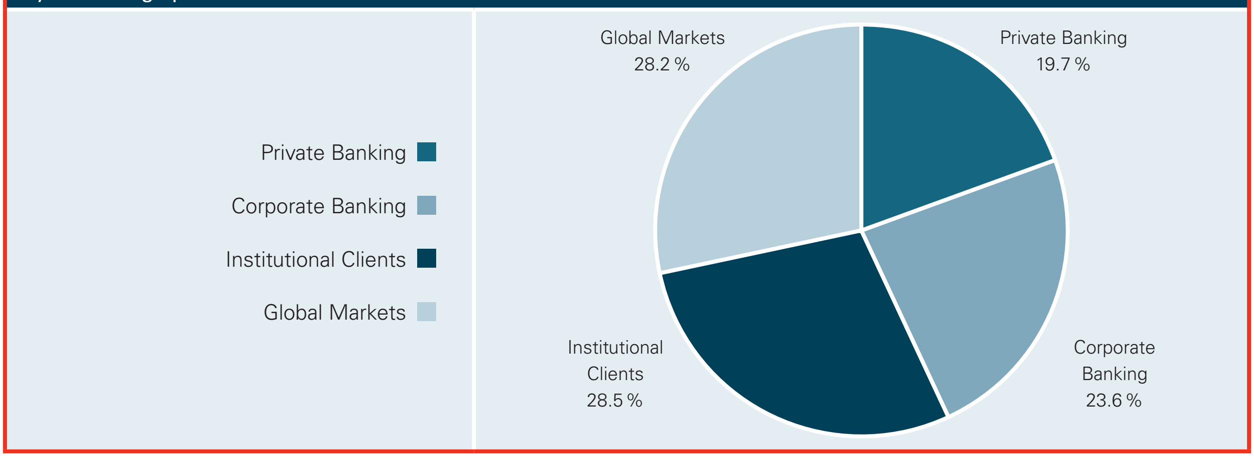
Credit
Operational Risk

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 € 25.6 million net costs incurred by head office functions during 2008, as against € 6.5 million for 2007, the 2008 operating profit was € 200.6 million (2007: € 205.4 million).[1)] The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions



1) Owing to the retrospective application of FRIC 11 (cf. Note 48 of our Annual Report) the costs incurred by head office functions increased by € 0.6 million in the previous year. Correspondingly, the previous year's operating profit was reduced by € 0.6 million.

Strategic Direction

The previous, rather cautionary statements we made at this point regarding the situation in the German financial and credit industry have not only been confirmed. The reality of the situation goes way beyond them. German financial institutions also entered into on and off-balance sheet risks to an extent never seen before as they were lacking viable client-based business models. They therefore became part of a global problem characterised by very high debt-equity ratios as well as a credit and risk bubble. Its bursting almost resulted in the collapse of the banking system and has led to a severe global recession.

Ill-considered lending, a lack of risk awareness, an almost unlimited supply of liquidity and blind trust in rating agencies led to this overleveraging world-wide – affecting not only the banks, but also other market participants.

This partly excessive expansionary environment has given way to total risk aversion and the liquidity that was available previously completely drying up.

As a result, the state is suddenly omnipresent. Enormous rescue packages introduced by governments and central banks brought the downward spiral to a standstill in October 2008. However, the state aid provides only initial support so that the institutions can regain their capacity to act through sound equity funding again and the stimulation of the interbank market. Also, the balance sheets still conceal problem assets and the traditional credit risks will grow as well owing to the negative cyclical trend. We therefore dare to forecast that the value adjustments required and therefore the need for government support will increase further.

With the aid it provides the government first of all indiscriminately safeguards banks with bad and good business models. It buys time for both. However, confidence and stability will only return to the financial market when the oversized balance sheets in the German banking sector have again been returned to a reasonable size which is in keeping with the German economy. This requires that institutions whose business model is not lastingly viable will first have to be resized and then merged or wound up.

As the situation on the German banking market gets worse, the virtues and strengths shown by HSBC Trinkaus come into their own more than ever: these include consistent strategy and personnel together with proven relationship management geared exclusively to the clients and their benefit as well as risk awareness, not only in bad but also in good times.

We will continue to offer our clients the "best of both worlds" within the framework of the HSBC Group: the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. Thanks to this unique combination in the German banking landscape, we have been able not only to strengthen the commitment of many of our clients in recent years, but also gain a large number of new clients. These clients are now benefiting from the relative strength of HSBC Trinkaus in difficult times as well.

We offer our clients not only the full range of traditional banking services, but also focus on sophisticated financial services as solutions to complex problems, on both the national and international level. We have always attached importance to incorporating our investment banking operations into the Bank as a whole and gearing them towards the clients. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. But our knowledge of the capital and credit markets' capacity to absorb is also in demand. We use financial derivatives systematically in order to offer our clients meaningful solutions and products. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

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

- We concentrate on the target groups of high net worth private clients, corporate clients and institutional clients and we aim to become a core banking partner for all our clients, 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 future clients. 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 offer. Risk limits and trading strategies are constantly geared towards the Bank's capacity to assume risk.

- Financial innovation and client-related solutions are our strength, because the application of wide-ranging expertise is the only way to realise added value 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 range of securities services for clients and for other financial institutions. We offer highly qualified services at competitive prices via our subsidiaries International Transaction Services GmbH (ITS) for securities settlement and Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) for fund administration, each of which has significant market shares. Added to this are the Bank's services as a depositary bank and in global custody as well as HSBC Global Asset Management's asset management offers in Germany and Austria.

- We draw on the resources of one of the largest banking groups in the world, the HSBC Group. This applies to both the powerful product range and the respective regional network.

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

- We must systematically use the global network, the regional links and the local know-how of the HSBC Group for our clients without having to make compromises in terms of their requirement of individualised private bank servicing.

- We must develop useful solutions in the spectrum of ever more complex financial services on the basis of long-term client relationships which are based on trust.

- We must develop with our clients on a partnership basis risk/return profiles which are adjusted to their interests and requirements within the scope of our capacity to assume risk.

- We must ensure that we have a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value chain, and we must 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 on the international level.

- 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.

We firmly believe that this strategy offers us a broad base for ensuring our long-term future economic success, including in the German financial market place which is undergoing major changes.

The 2008 Financial Year

The Economic Environment

The global economy was not able to come anywhere near the growth momentum seen in the two previous years in 2008. Expansive forces were weakened on the one hand by the rise in raw material prices, which continued until mid-2008. On the other, the escalating crisis on the financial markets left deep marks. The collapse of the US investment bank Lehman Brothers in September in particular proved to be a catalyst for the turmoil on the capital market, which from then on at the latest also affected the emerging markets, giving the crisis a global character.

The weakening of global demand, which had a particularly hard impact on the export-oriented industrial sectors, was the main growth inhibitor for the German economy. Correspondingly, external trade had a dampening effect on growth in 2008. Private consumption was also not able to generate any positive growth impetus owing to the oil price shock. The overall economy grew by 1.0% in 2008 based on solid investment activity. However, the economy has already been shrinking compared to the previous period since the second quarter, which means that Germany is in a recession according to the classical definition. At the beginning of November, the federal government felt impelled to support the economy by introducing an initial rescue package. The German banking system has not been able to escape the global downward spiral either. Several institutions have only been able to avoid insolvency thanks to government support.

The rise in energy prices also left its mark on inflation. The rate of inflation reached its peak in mid-2008 at 3.3% in Germany, at 4.0% even in the eurozone. Despite disappointing economic data, the ECB was prompted by this trend to increase the repo rate in July by 25 bp to 4.25%. Owing to the sharp decline in inflation in the second half of the year and the increasingly dismal prospects for the financial system and the economy overall, the ECB did a U-turn in October and lowered the key interest rate to 2.5% by the end of the year. This is likely to have contributed to the value of the euro falling from US$ 1.60 at times to US$ 1.40 at the end of the year. Capital market rates also benefited from the interest rate cuts with the yield on ten-year Bunds falling as far as below 3.0%. However, there was little reason for joy among investors on the German stock market. The DAX30 lost around 40% in a year-on-year comparison.

Profitability

The financial market crisis led to extremely differing trends in our income statement in 2008. On the one hand, there were substantial burdens on our strategic securities positions. On the other, we were able to use the trust placed in us by our clients to expand our business in many areas of our operating business. Proprietary trading was also almost able to repeat the extremely good prior-year result. But this year, too, German GAAP accounting produces a picture which does not do sufficient justice to these economic trends. Thus our profit on ordinary activities pursuant to German GAAP came to € 286.2 million, increasing more than fourfold over last year's profit on ordinary activities of € 63.1 million, even though from the aspect of substance the previous year was better than the year under report.

The good results in our client business and in proprietary trading have been reduced in part by the impact of the financial market crisis on our strategic securities positions. Substantial value adjustments on the Bank's securities positions were required in the 2008 financial year leading to expenses of € 71.5 million in cross-segment compensation and to writedowns on interests in subsidiaries totalling € 5.5 million. These losses affect mainly bonds as well as equities and subordinated capital of banks and insurance companies, and also investment funds. As is the case with net loan impairment and other credit risk provisions, we apply stringent standards for calculating the necessary impairments.

This means that profit before taxes increased by € 167.25 million to € 205.0 million, a result which enables us to transfer € 130.0 million to retained earnings while at the same time paying an unchanged dividend versus the previous year of € 2.50 per share. This corresponds to a dividend total of € 65.3 million, which was fully earned in the operating business.

The individual items of the income statement developed as follows:

Net interest income was up 45.0% to € 230.5 million. We benefited in particular here from the major trust placed in us by our clients, as can be seen from the further increase in customer deposits of € 1.1 billion or 11.4% in a year-on-year comparison. The prior-year figure of almost € 10 billion was already the highest level of customer deposits in the history of HSBC Trinkaus. This meant that we did not have to carry out any expensive refinancing transactions, but were able to invest the major surplus funds at significantly better terms and conditions. The selection of suitable addresses for this presented our risk management with a particular challenge at times.

Current income from equities and other non-interest-bearing securities declined from € 107.4 million to € 33.4 million year on year; this is due to the fact that in the previous year exceptionally high dividend payments on shares were recognised as a hedge position for certificates in the trading portfolio. This corresponds to the net income figure from financial transactions.

Net income from profit transfer agreements declined by 6.2% to € 56.0 million, mainly on account of a slight drop in earnings of HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH and HSBC Global Asset Management (Deutschland) GmbH.

Net fee income was down 5.7% to € 207.9 million. As expected, there was a significant decline in net fee income from the securities business as our clients are showing restraint on account of the financial market crisis and the dramatic reduction in share prices. On the other hand, the foreign exchange, derivatives and international business, lending as well as payments were very successful as both volumes and margins were expanded. This was due first of all to the trust placed by our clients in our financial strength; secondly, we were able to use the liquidity and capacity to assume risk of the HSBC Group's large global trading books to the major benefit our clients. We were also able to increase net fee income in traditional banking transactions such as the foreign and lending business as well as payments. This is because the choice of banking partner has taken on new significance in particular for our corporate clients, a trend from which we have been able to benefit significantly. On the other hand, our issuing and structuring business as well as Investment Banking clearly suffered from the major plunge in the markets in the year under report.

Following € 177.5 million in net losses from financial instruments last year, this year the Group reported € 115.5 million in net income from financial instruments. The meaningfulness of this figure in economic terms is, however, limited. First of all, in the year under report, we accounted for trading portfolios on the basis of the risk-adjusted fair value approach for the first time; in future, therefore, the meaningfulness of net income from financial instruments in economic terms will be substantially improved. Due to the switch, the Bank received unrealised valuation gains totalling € 170.5 million before taxes in the year under report. Secondly, pursuant to German GAAP not all earnings components from the trading activities are to be included in this item. In particular, it does not include interest and dividend income from securities in the trading book and the refinancing of the trading portfolios. Accordingly, we will comment on the economic profit (pursuant to IFRS). Despite the extreme market turbulence, we were able to increase last year's exceptionally good trading result by a further 0.7% to € 98.3 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. With the issue of more than 55,000 certificates and warrants we reached a new high in 2008. The issuer risk in these products had a major impact for an issuer in the German market for the first time in the 2008 financial year. This meant that the market for these products declined significantly overall, above all with respect to products with a capital guarantee. However, as we focus traditionally on products for investors who are very close to the market and participate actively in trading, this decline only affected us far less than proportionately.

We were able to increase the prior-year result in foreign exchange trading substantially as margins were widened in the second half of the year, therefore almost compensating for the decline in volumes for the full year. By contrast, we reported a substantially lower result in interest rate trading, although there was a very significant increase in the result in the money market business owing to our excellent liquidity position. Client-related trading with registered Pfandbriefe and promissory note loans also did better than in the previous year. These positive results are set against losses in the bond portfolios and interest rate derivatives, the result mainly of spread widening with respect to bonds, Pfandbriefe and bank bonds. All in all, therefore, trading profits of only € 2.3 million were recorded, down from € 11.0 million in the previous year. Since the year under report was influenced by changes in credit and liquidity spreads to an extent never seen before, we by no means take a positive trading result in interest rate trading for granted, especially as we did not make use of the new option according to IFRS of reclassifying positions.

At € 294.2 million, administrative expenses are virtually unchanged from the previous year's figure of € 294.8 million. Administrative expenses for the 2008 financial year also include considerable expenses for implementing the flat-rate withholding tax as an extraordinary effect. There was also a further significant increase in other regulatory costs. The number of employees increased by more than 5.7% compared to the previous year to 1,481. First of all, it highlights our growth course, which, however, we adjusted to the new conditions in the banking sector, and therefore restricted significantly, in particular in the second half of the year. Secondly, performance-related remuneration declined significantly in line with the consolidated result. Alongside regulatory costs, within material expenses the building costs and HSBC group expenses continued to rise, whereas IT costs have remained virtually unchanged at a high level. We still endeavour to keep up with the constantly growing requirements in the banking business by making targeted investments in our IT infrastructure as well as rationalising work processes, therefore increasing their efficiency. This will ensure HSBC Trinkaus' future efficiency and is therefore of major strategic importance.

For the first time, other operating expenses include the on-charging of pro-rated computer centre costs to our subsidiary International Transaction Services GmbH. Apart from this, other operating expenses and income did not include any special factors, as in the previous year.

In cross-segment compensation we recorded net expenses of € 71.5 million, up from € 9.4 million in the prior year. The persistently good quality of our credit portfolio once again led to an income figure of our lending business. As regards the valuation of our strategic financial assets, HSBC Trinkaus has made no compromises in terms of its strict valuation standards. Market values are calculated predominantly on the basis of market data taken from active markets, either directly using prices observed on these markets or using valuation models, which resort exclusively to observable parameters. As this is not possible only in individual cases, we have alternatively estimated individual parameters ourselves. Overall, writedowns came to € 86.6 million, which were only in part offset by writeups on bonds totalling € 4.3 million and capital gains of € 7.2 million.

The Asset Situation

Total assets fell by 1.5% in the year under report to € 17.6 billion. On the assets side, there was a significant rise compared to the previous year in particular in loans and advances to clients of 22.0% to € 5.7 billion as well as in debt securities and other fixed-interest securities of 22.2% to € 8.3 billion. On the other hand, loans and advances to banks declined by almost 50% to € 2.0 billion and there was a reduction in the cash reserve to € 0.1 billion, which was balance sheet date related. On the liabilities side, there was an increase above all in customer accounts of 11.4% to € 10.7 billion as our clients appreciate the financial strength of our Bank and the HSBC Group especially now in view of the crisis on the financial markets. There was an increase in loans and advances to banks, which was balance sheet date related, of 8.5% to € 2.7 billion while the 60.2% reduction in securitised liabilities to € 1.8 billion reflects the shrinking certificates market in Germany.

In the year under report we accounted for trading portfolios on the basis of the risk-adjusted fair value approach for the first time. This means that the net positive and negative market value of derivative financial instruments of the trading book is reported under other liabilities, whereas the securities and borrower's notes are reported at their market values; the book values of the relevant balance-sheet items are therefore comparable with the previous year to only a limited extent.

HSBC Trinkaus' balance sheet is still characterised by very high levels of customer deposits which account for more than 50% of total assets and almost twice our client lending business. Thanks to this outstanding liquidity position, we can easily compensate for the decline in securitised liabilities. We are faced with completely new challenges in the interbank market as many institutions have only been able to secure their survival by means of government rescue measures in the meantime, and not all of the problems have yet been revealed. We have therefore invested part of our growing liquidity surplus in our strategic securities positions. 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. Nevertheless, the final quarter of the year under report and the beginning of 2009 in particular show clearly that the financial market crisis has led to enormous spread widening also with respect to bonds of German public-sector issuers as governments world-wide are having a substantial influence on the valuation of other public-sector securities via state-guaranteed bank bonds.

In the client lending business, we continue to pursue our strategy of growing with our clients and dispensing with synthetic lending business. HSBC Trinkaus is a reliable partner for its clients, even and especially as times have become more difficult. We pay constant attention here to the profitability of each individual client relationship as a mandatory requirement for a lasting partnership.

Financial Position

The Bank's liquidity position was very good throughout 2008. We deliberately hold large safety buffers with respect to the quantitative regulatory requirements relating to minimum liquidity with an average of 1.61 for the end-of-month positions according to the Liquidity Ordinance. In addition, we continued to refine our structural liquidity management in the year under report.

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. HSBC Trinkaus uses the IRB approach for this. According to Basel II, it is required for the first time that liable equity capital is committed for operational risks as well. This burden is set against relief with respect to the inclusion of loans, also in the trading books, in particular where there is good credit quality.

In a reporting date comparison, HSBC Trinkaus & Burkhardt AG's positions requiring equity backing according to the regulatory provisions declined overall by 13.9% to € 7.8 billion. In addition to the effects of converting to the German Solvency Regulation (Solvabilitätsverordnung), this also reflects the measures we have introduced to ensure the optimum management of equity capital. We have invested to a greater extent in securities issued by public-sector borrowers with a risk weighting of 0%, thereby deliberately foregoing higher yields. In doing so, we are consistently following our principle that security has priority over profitability. This has proven to be of enormous value in the past and especially in the year under report.

No capital increases were carried out in 2008, not even for supplementary capital. Because the trading portfolios were for the first time accounted for on the basis of the risk-adjusted fair value approach, this has enabled a high allocation to reserves at HSBC Trinkaus & Burkhardt AG to improve capital funding. We therefore remain well equipped for the challenges presented by the banking business in Germany in difficult times as well. After the appropriation of profit HSBC Trinkaus shows a capital ratio of 14.7% and a Tier 1 ratio of 9.5%, which by far exceeds the banking supervisory requirements. It is to be taken into consideration here that the Bank raised no hybrid capital, but strengthened the Tier 1 ratio exclusively from capital and reserves. Our dividend remains unchanged compared to the previous year at € 2.50 per share.

Outlook

The turmoil on the international financial markets slackened the pace of growth significantly at the end of 2008, creating a starting base for economic growth in 2009 that could not be more unfavourable. We do not anticipate a significant cyclical recovery over the further course of the year despite the rescue packages introduced by various national governments and central banks. With the banking system still beleaguered, the growth impetus generated cannot develop freely. In this respect, there is a threat of a decline in economic performance in the USA, but also in the Eurozone in 2009.

Owing to its major dependence on exports, the German economy will suffer in particular. The slump in order intake should lead to capacities lying idle, an environment in which companies are likely to slash their capital expenditure. A significant increase in unemployment with corresponding pressure on private consumption also has to be anticipated. We assume on balance that gross domestic product will decline by at least 2.5% in Germany. The decline in the eurozone is likely to be only slightly weaker at 2.0%. The ECB is likely to ease its monetary policy further in this environment and lower the repo rate to 1.5%. With a view to this general setting, we are not anticipating a significant increase in capital market rates.

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. The support provided with taxpayers' money going into billions has saved several banks from insolvency. The collapse of Lehman Brothers exemplifies the particular significance of systemic risk in the global banking system. The investment bank based on the US model has disappeared. As it has become obvious that a large number of institutions wrongly assessed the risks they entered into and their capacity to assume these risks, many of them will have to embark on strategic reorientation. It is to be taken into consideration here that the losses reported in 2007 and 2008 resulted largely from the balance sheet adjustment of purchased assets, and less from the original client business. As the current drop in economic activity will presumably already entail a heavy risk burden from the client lending business in 2009, the pressure on earnings will not be reduced. It is not clear how the institutions benefiting from the government support measures could repay them.

In this environment, in which new challenges present themselves every day, we plan to use our target client orientation and strong balance sheet to gain further market shares. We should succeed in this as we are able to concentrate on the business with our clients and valuable resources are not tied up by internal restructuring measures. However, there is a risk of considerable competitive distortions in favour of those banks that have shifted responsibility for the errors they made in the past on to the state and are now competing for clients with state guarantees, in other words borrowed financial standing.

There is no need for us to change our business strategy. We remain a client-oriented bank with risk-aware proprietary trading activities and want to remain a reliable partner for our private banking, corporate banking and institutional clients.

We are expecting greater pressure on earnings in 2009 than in the latest financial year, which we concluded successfully compared to the competition. Revenues of banks in Germany will continue to decline in 2009. It is uncertain whether the gain in market shares we are aiming for will be enough for us to maintain revenues on the high level seen in previous years. Net interest income will play a more important role as there will be a substantial decline in fee income owing to the low level of share prices, expected lethargy and the clients' unwillingness to take on risk. It is particularly important to keep costs strictly in check in this scenario. Administrative expenses are not expected to increase in a year-on-year comparison, but we will make sure at the same time that the Bank's infrastructure is not lastingly weakened by insufficient investments.

We are therefore assuming a decline in our operating profit, subject to the proviso that there is no major slump in share prices again and no strong increase in credit risks. The solid quality of the entire credit portfolio represents a good starting base for us. We expect the credit standing of individual companies to deteriorate substantially in 2009, especially in export-oriented sectors. As our portfolio shows differing concentrations, a small number of problem cases can already lead to significant individual impairments.

In the past, we always regarded a 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 for our clients. The more favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. For the current financial year we are expecting a ratio at the upper end of the range.

The client segments are likely to show differing trends. The trading activities of our wealthy private clients were far weaker in 2008 owing to the extremely poor performance of the stock markets. As we had significantly underweighted equities in the asset portfolios we manage on behalf of our clients, we were able to avoid major asset losses. We hope that this achievement will support our acquisition efforts. The performance of important asset categories will presumably require the use of structured products in 2009, such as discount certificates, in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident that we can expand our market position and limit the decline in the earnings contribution. We are open to acquisitions in this client segment.

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. International competitors, which have become dependent on capital support from their governments and will therefore have to concentrate on their domestic market, will withdraw from Germany. This will present a particular challenge for the supply of loans to the German Mittelstand. HSBC Trinkaus will remain a reliable partner in the corporate banking business. The pro-cyclicity of Basel II will lead to an increase in capital backing in the lending business as the credit ratings of export-oriented clients in particular will presumably deteriorate. This will make it more difficult to expand the portfolio. We want to use the basis of trust we have developed with our clients through long-term cooperation to broaden our service offer. As there has been significant growth in the number of our clients in recent years, we assume that we will be able to increase the earnings contribution in the corporate banking business.

Our expectations for this year are also cautious as regards our business with institutional clients. The expected low interest rate environment will make it difficult for many institutional investors to achieve their target returns. Individual solutions and products which are tailor-made to the requirements of the institutional clients and which illustrate the targeted risk-return profile are mandatory requirements for standing out as a trusted advisor for our clients. Thanks to our 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 for this; we 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. As clients will only be able to make limited risk capital available for new investments in 2009, we are expecting declining transaction volumes and a lower earnings contribution.

In the wake of our integration into the HSBC Group, we reorganised our trading activities so that our interest rate and foreign exchange trading activities are geared exclusively to supporting our clients' requirements and we benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, the equity derivatives activities will be expanded at HSBC Trinkaus in the wake of the division of labour. A broad product range is expected to support our sales initiative and contribute to increasing our market share in certificates and warrants trading. Our excellent rating is growing in importance as a decision criterion for private investors. Even given an unexpectedly favourable general setting, it will scarcely be possible to reach the high earnings contribution recorded in 2008.

The investments in IT systems will be continued on a clearly defined scale in 2009 in order to further increase efficiency in different areas of the Bank. These will be accompanied by adjustments to effectively support integration into the HSBC Group. We completed the flat-rate withholding tax project on time at the end of 2008, but the ongoing activity of deducting tax and paying it over to the tax office constantly involves increased costs. In order to avoid operative risks, we will introduce additional business process controls, even if this is accompanied by further cost burdens. The challenge of strictly limiting costs is obvious.

The Bank's capital position is good and the Tier 1 ratio after allocations to reserves of over 8% of risk assets will enable the targeted and return-oriented expansion of our market shares.

We will keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business, paying particular interest to asset management as well as fund administration and the depositary bank activities.

Like the HSBC Group, we do not want to make use of the offers of government support. We hope that the state intervention will not lastingly distort competition in the banking market at the expense of market participants who responsibly carry out their business without government assistance. If this hope does not fail us, we will be able to continue to pay our shareholders an appropriate dividend.

Risk Management

Principles of Risk Management Policy

One of the key functions of a bank is to accept risk consciously, actively managing it and systematically transforming it. We regard counterparty, market and liquidity risk, operational and strategic risks and not least also risks to our reputation 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 Bank's capacity to carry risk, but also offers corresponding risk premium and return.

In accordance with these risk principles we are ready to enter actively into market and counterparty risk. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the Bank has taken out adequate insurance. We avoid reputational and 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 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.

2008 presented major challenges for risk management in banks. Some of them have had to learn the painful lesson that liquidity is not a freely available commodity, but that the old principle of "liquidity before profitability" has justified itself in a drastically changing market environment, as shown by the spectacular collapse of Lehman Brothers, the US investment bank. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2008. HSBC Trinkaus saw major inflows of liquidity from all three client segments throughout the year. We extended our liquidity reserves and paid strict attention when investing the funds accruing in the money and capital markets 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, directly after managing liquidity, was managing counterparty risk. At first we focused primarily on the counterparty risks of other financial market participants. Relieved by the government rescue packages introduced, we then took an increasingly critical look at country risks. The problems in Iceland and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public.

The economic downtrend was reflected clearly in the forecasts given the companies, but also by the government and the economic research institutes in the final quarter of the year under report. The deterioration of company credit ratings on account of the downswing will put major pressure on banks' corporate lending portfolios, at least in 2009 and 2010. This aspect has also been reflected in risk management at our Bank.

Market risk management at HSBC Trinkaus passed a tough performance test in 2008. Trading with derivative equity products was able to follow on from the outstanding previous year's performance, although managing the books and quoting prices for warrants and certificates at any time pushed both trading divisions and downstream departments to the limits of their capacity. Even erratic moves in share prices undreamt of so far, such as those in the VW ordinary shares, did not lead to a drastic impact on the results thanks to strict limit discipline. The money market business gave an excellent performance thanks to active trading despite restrictive counterparty limit parameters. The trading books for controlling throughout the Bank suffered substantially from spreads widening to this extent, which was not expected. We will continue to develop the limit system selectively based on this new experience.

With respect to operational risk, we had to pay far greater attention particularly to settlement risks on several days on which particular events took place.

What we are observing overall is that the higher risk in nearly all areas of the banking business 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 Committee for operational risks 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.

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 decision-making channels to the senior management as well as an awareness of risks taken and the continuous development of risk management are all of central importance.

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. It 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 on account of their major significance.

HSBC Trinkaus' strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, foreign exchange and derivatives markets and also on the capital markets' capacity to absorb new interest rate and equity product issues. This aspect will become even more important in 2009 as the capacity of many of our clients to assume risk will be reduced by the negative performance of the capital market. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for high net worth private clients, can only counteract this risk to a limited extent. To a certain extent, thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way via 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 for strengthening their equity and for state guaranteed refinancing. Risk premiums will have to be raised in order to provide adequate cover for the increased risks in the banking business at present. However, if this increase in risk premiums does not come about on account of the government support, it will mean firstly the systematic distortion of the competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation. Secondly, it is unclear how the domestic and international competitors concerned plan to pay the funds raised back to the governments again.

The further modernisation of our IT architecture made no substantial progress in 2008 as resources were tied up for the implementation of the flat-rate withholding tax. It will require the deployment of substantial human and financial resources in future as well. These investments will be accompanied by increased expenses for third-party software and write-downs on software and hardware leading to a further significant increase in the Bank's cost base. In a first step, we moved the emergency computing centre to a more modern location with far greater reliability of operation. We also plan to transfer the primary computing centre to an improved location in the first half of 2009 thus completing this risk-reducing project.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already used 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 along with the accompanying examinations, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to 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 emphasise that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly.

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.

In line with 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.

Moreover, we adhere to the principle of risk diversification. 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, and that our credit risks are widely spread across different industry sectors and counterparties.

The minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin) are being consistently complied with. 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 the 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 medium-sized companies, 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 any collateral agreements.

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 with the help of his or her financial information, which is developed using internal customer 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, the expected loss for the individual loan exposures is estimated taking into account security and other agreements. A loan impairment provision is set up 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 so that the cash value of these payments can be compared with the book value of the loan exposure. The loan impairment provision fully covers 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.

Credit risk monitoring is conducted by applying 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 or doubtful 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 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 foreign lending, except where the purpose is to assist clients in their business dealings. The local offices of the HSBC Group are better able to assess many risks which are difficult for us to evaluate. We therefore pass these client relationships on to the local 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:

	31.12.2008		31.12.2007	
	in €m	in %	in €m	in %
Loans and advances to	**7,062.3**	**26.8**	**8,389.9**	**33.4**
banks	2,979.7	11.3	4,117.0	16.4
customers	4,082.6	15.5	4,272.9	17.0
Trading assets	**11,947.8**	**45.3**	**9,888.0**	**39.3**
Debt instruments and other fixed-income securities	6,945.4	26.3	6,241.9	24.9
Shares and other non-fixed-income securities	383.7	1.5	479.4	1.9
Tradable receivables	2,001.6	7.6	813.1	3.2
OTC derivatives	2,223.4	8.4	1,311.8	5.2
Reverse repos/securities lending	74.4	0.3	1,041.8	4.1
Cash deposits	319.3	1.2	0.0	0.0
Financial assets	**2,118.8**	**8.1**	**1,567.9**	**6.2**
Debt instruments and other fixed-income securities	1,720.1	6.6	885.8	3.5
Shares	21.4	0.1	41.5	0.2
Investments	142.6	0.5	383.3	1.5
Borrower's note loans	127.6	0.5	157.2	0.6
Interests in subsidiaries	107.1	0.4	100.1	0.4
Contingent liabilities	**1,747.5**	**6.6**	**1,617.2**	**6.4**
Loan commitments	**3,489.2**	**13.2**	**3,704.3**	**14.7**
Total	**26,365.6**	**100.0**	**25,167.3**	**100.0**

(c) Collateral and other credit enhancements
Where necessary, for example with long-term financing or pure loans against securities, the provision of collateral is agreed in principle. 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/or to the pledged tangible assets.

Land charges should be within a loan-to-value ratio of 50% (mainly commercial use) or 60% (mainly residential 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 subject to examination at regular intervals. With charges on property, the property serving as security is to be revalued after five years at the latest. Where the loan secured by a charge on property exceeds 50% of the value of the property serving as collateral, an annual revaluation is required. 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

	31.12.2008				
in €m	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**

	31.12.2007				
in €m	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	4,117.0	4,251.2	1,595.3	3,699.8	13,663.3
Overdue, but not impaired	0.0	1.2	0.0	0.0	1.2
Individually impaired*	0.0	20.5	21.9	4.5	46.9
Total	**4,117.0**	**4,272.9**	**1,617.2**	**3,704.3**	**13,711.4**

* Including the setting-up of provisions for credit risks

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	31.12.2008			31.12.2007		
	Trading Assets	Financial Assets	Total	Trading Assets	Financial Assets	Total
AAA	2,166.8	700.2	2,867.0	995.9	246.4	1,242.3
AA+ to AA–	3,897.1	682.3	4,579.4	4,889.6	218.4	5,108.0
A+ to A–	600.3	150.0	750.3	117.0	133.2	250.2
BBB+ to BBB–	18.3	103.0	121.3	10.0	71.5	81.5
Lower than BBB–	0.3	13.8	14.1	0.0	28.5	28.5
No rating	262.6	70.8	333.4	229.4	187.8	417.2
Total	**6,945.4**	**1,720.1**	**8,665.5**	**6,241.9**	**885.8**	**7,127.7**

OTC derivatives

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

		31.12.2008		31.12.2007	
		in €m	in %	in €m	in %
OECD	Banks	1,623.0	73.0	1,127.1	86.0
	Financial institutions	224.9	10.1	45.1	3.4
	Miscellaneous	374.2	16.8	135.6	10.3
Non-OECD	Banks	0.0	0.0	1.4	0.1
	Financial institutions	0.0	0.0	0.0	0.0
	Miscellaneous	1.3	0.1	2.6	0.2
Total		**2,223.4**	**100.0**	**1,311.8**	**100.0**

(e) Information on exposures which are neither overdue nor impaired

The quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired is determined by means of an internal rating procedure. Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto seven financial grades. Financial grades 1–5 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	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Rating categories 1–2	2,916.0	1,645.0	988.8	1,666.1	7,215.9
Rating categories 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

in €m	31.12.2007				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Rating categories 1–2	4,103.0	1,791.4	805.3	1,671.9	8,371.6
Rating categories 3–4	14.0	2,454.7	787.3	2,027.9	5,283.9
Rating category 5	0.0	5.1	2.7	0.0	7.8
Total	4,117.0	4,251.2	1,595.3	3,699.8	13,663.3

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

(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 € 1.9 million in the year under report (2007: € 1.2 million) and are exclusively to customers. € 0.5 million (2007: € 0.8 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. No corresponding impairments were made on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at € 0.5 million in the year under report (2007: € 0.7 million).

In addition, there are overdue, but not impaired claims resulting from excess interest of € 0.4 million (2007: € 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 (2007: € 0.5 million).

There are also overdue, but not impaired loans and advances to customers of € 1.0 million (2007: € 0.0 million) for which collateral is available in the form of a land charge, the value of which was € 0.5 million (2007: € 0.0 million). The Bank assumes that it will be adequately serviced from the insolvency estate for the amount which exceeds the collateral.

(g) Information on exposures for which loan impairment and other credit risk provisions have been set up

HSBC Trinkaus carries out loan impairment and other credit risk provisioning 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. The credit ratings 6 and 7 include problematic exposures for which credit risk provisions have been set up. Credit risk provisions set up to allow for country risks also include exposures with higher credit ratings.

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

in €m	31.12.2008			31.12.2007		
	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						
Rating categories 1–5	0.0	5.2	5.2	0.0	5.2	5.2
Rating category 6	0.0	51.1	51.1	0.0	11.0	11.0
Rating category 7	0.0	3.9	3.9	0.0	4.3	4.3
Total	0.0	60.2	60.2	0.0	20.5	20.5
SLLP						
Rating categories 1–5	0.0	3.2	3.2	0.0	3.1	3.1
Rating category 6	0.0	9.6	9.6	0.0	6.8	6.8
Rating category 7	0.0	2.2	2.2	0.0	2.6	2.6
Total	0.0	15.0	15.0	0.0	12.5	12.5
Book value after individually assessed impairments	0.0	45.2	45.2	0.0	8.0	8.0

Within the scope of loan impairment and other credit risk provisioning, HSBC Trinkaus also sets up provisions for contingent losses for individual contingent liabilities and loan commitments which amounted to € 5.2 million in the year under report (2007: € 6.6 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 6.4 million (2007: € 3.7 million) for loans and advances and € 1.6 million (2007: € 0.9 million) for contingent liabilities and loan commitments.

Credit-related impairments on financial assets came to € 43.7 million in the year under report (2007: € 3.8 million).

(h) Information on collateral held

As regards loans and advances which have been individually impaired, collateral and other credit enhancements in the form of guarantees, transfers of title and security as well as land charges are held, the value of which totalled € 38.3 million (2007: € 4.3 million) in the year under report.

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

Collateral held and other credit enhancements amounting to € 11.3 million were realised and drawn on, respectively, in the 2008 financial year (2007: € 0.9 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:

	31.12.2008		31.12.2007	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	12,584.9	47.7	12,909.8	51.3
Companies and self-employed professionals	9,191.2	34.9	10,885.3	43.3
Public sector	4,278.3	16.2	736.3	2.9
Employed private individuals	311.2	1.2	635.9	2.5
Total	**26,365.6**	**100.0**	**25,167.3**	**100.0**

	31.12.2008		31.12.2007	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	18,120.5	68.7	13,987.9	55.6
Other EU (including Norway and Switzerland)	6,814.3	25.9	9,857.7	39.2
Asia	632.1	2.4	435.3	1.7
South America	430.8	1.6	309.3	1.2
North America	314.1	1.2	470.7	1.9
Rest of Europe	31.4	0.1	61.7	0.2
Africa	18.9	0.1	39.4	0.2
Oceania	3.5	0.0	5.3	0.0
Total	**26,365.6**	**100.0**	**25,167.3**	**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 € 4,579.1 million (2007: € 6,847.5 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.

Basel II

The Basel II framework, which was adopted into national law in 2006 via the introduction of the German Solvency Regulation (Solvabilitätsverordnung), is focused on the amendment of the regulatory capital requirements for the lending business. HSBC Trinkaus made use of the transitional regulation of the Solvency Regulation and implemented the IRB approach with effect from 1 January 2008. The IRB approach leads to the highly differentiated consideration and quantification of credit risk. By introducing the IRB approach, the Bank controls the risk sensitivity of its portfolio in compliance with the capital adequacy requirements. Credit risk management is an integral part of risk-adjusted controlling throughout the Bank.

The Basel II requirements were implemented at HSBC Trinkaus by a central project group set up to coordinate implementation above all in the fields of credit, accounting and IT. The Bank already introduced a new Basel II-compliant client rating system in 2005. The examination for certification of the internal rating systems by the German banking supervisory authorities took place in the first quarter of 2007 and in the second quarter of 2008 and there were no serious findings. The preliminary approval given on 13 December 2007 was confirmed.

The Bank works closely together with the HSBC Group as regards the application of methods, systems and processes in connection with Basel II. It benefits significantly from the international transfer of know-how between the Group's various units.

HSBC Trinkaus meets its disclosure obligations pursuant to Pillar 3 through the disclosure made on 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).

We focused in 2008 on revising the examination results and optimising the rating processes and data quality. Alongside this, we also took the final steps towards implementing standard software for calculating capital adequacy and for generating supervisory reports. The processes designed were also tested on a daily basis and the details systematically improved. All of the necessary processes have been running without any significant problems since 1 January 2008. All of the requirements have therefore been implemented on time.

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 risks to an acceptable level while taking the costs involved into consideration. The Operational Risks 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 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.

The Operational Risks Committee's job is to identify operational risk, 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 efficiency of the internal controls.

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. In this way we determine the absolute extent of the risk. On this basis, risks are then assigned to one of four risk categories, explicitly allowing for the control environment already implemented. 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, it 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 and 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 at the subsidiaries are responsible for the information recorded reflecting the current risk profile at all times.

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

Within the scope of reporting, the greatest operational risks are identified on a monthly basis and classified according to their significance. The Operational Risks Committee regularly discusses the progress being made with the reduction of these risks and makes any necessary decisions.

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

A further significant instrument in the identification and observation of 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 office. This ensures that each (potential) incident is analysed to establish whether the error was an isolated occurrence or is likely to recur. The Committee then decides on any measures necessary to reduce that risk. 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 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 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 Committee work has generated significantly greater awareness of operational risk among all Bank staff in recent years. 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.

Operational risk is minimised at HSBC Trinkaus 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. 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 in to 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: currency 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 we have used for many years 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 the Appendix 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 non-financials in the model as they are of no importance for our proprietary trading. The inclusion of further spread risks in the risk model is being considered. 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 are as follows:

in €m	2008			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	2.9	2.5	1.9	4.0
Currency-related transactions	0.0	0.2	0.0	0.5
Equity/index-related 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**

in €m	2007			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	2.9	2.3	1.5	3.4
Currency-related transactions	0.3	0.1	0.0	0.4
Equity/index-related transactions	1.1	1.7	0.9	3.1
Total potential market risk in the trading portfolio	**3.2**	**2.8**	**1.7**	**3.8**

The regulatory mark-up factor of 3.2 was taken into consideration in the figures published the previous year for the calculation of the market risk potential in the trading book. This factor was not taken into consideration in the year under report. For reasons of comparability the prior-year figures have been adjusted accordingly.

Risks relating to interest rates and equities still represent the Bank's greatest market risks. There is hardly any change in the average for 2008 compared to the average for 2007. However, there were significantly greater risks towards the end of 2008 on an account of the increased market volatility.

We also use our internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries within the scope of an outsourcing service contract.

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. In 2008, only two back-testing anomalies were found throughout the Bank, a fact which suggests that the risk modelling employed is probably on the conservative side given the major distortions on the financial markets, in particular in autumn 2008.

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 being 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 controlling department 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. The Market Risk Controlling department also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

The average market risk potential in the investment book (99% confidence interval/1-day holding period) came to € 1.2 million (2007: € 3.2 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 executive management level.

Liquidity Risk

We understand liquidity risk as the danger of insolvency. We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities.

The volume of customer sight and term deposits in our balance sheet by far exceeds the volume of customer loans. We are not dependent on constantly raising funds from institutional investors on the capital market (wholesale funding), and therefore have no medium term note or commercial paper programme. The trading divisions, such as Equity Derivatives Trading, are meant to refinance their positions themselves by issuing share certificates and warrants. They transfer the excess liquidity to the Bank's Treasury divisions. The free liquidity from the deposit and trading business is invested almost exclusively in eligible debt instruments issued by public-sector issuers, Pfandbriefe and bank bonds; we also invest in the interbank market in short-dated money market instruments issued by the HSBC Group or other first-class counterparties. This gives HSBC Trinkaus a liquidity cushion which ensures that the Bank is able to pay at all times if there is an unexpectedly strong outflow of deposits. In order to tap into additional liquidity reserves, we have been participating in the Deutsche Bundesbank's new electronic submission procedure for loan receivables since January 2007. In addition, we also took up trading on the EUREX repo platform in August 2008, but almost exclusively as cash provider. In principle we do not use secured borrowings from the central bank via main refinancing operations or marginal lending facilities for the permanent refinancing of our business activities. For us, central bank money represents a form of emergency liquidity in times of crisis, otherwise acting at best as a short-term bridge in the event of time differences between deposits and disbursements. HSBC Trinkaus raised no funds within the scope of main refinancing operations in the whole of the second half of 2008.

The Bank's structural liquidity position is the responsibility of the Asset and Liability Management Committee which manages it and coordinates it with HSBC. The balance sheet structure and liquidity ratios are constantly monitored as part of this control process. Liquidity commitment reports and simulations with various scenarios as well as process overviews are employed periodically. Our internal cash reserves comfortably exceed the requirements stipulated by the German banking supervisory authorities in the Liquidity Ordinance or by internal limits. In order to identify liquidity risk early on, threshold values are defined in stress testing which relate to liquidity and funding coefficients as well as cash and cash equivalents by time band. These time bands being exceeded leads to escalation procedures. Our three-stage emergency liquidity plan can be activated in the short term and envisages that the Bank can fulfil its payment obligations at any time even without HSBC's support.

The following overview shows Trinkaus & Burkhardt AG's key liquidity ratio in accordance with the Liquidity Ordinance (LiqV):

	Liquidity ratio in accordance with LiqV	
in %	2008	2007
31.12.	1.57	1.56
Minimum	1.51	1.33
Maximum	1.83	1.80
Average	1.61	1.58
Target in accordance with Section 2 LiqV	**1.00**	**1.00**

Our internal cash reserves still comfortably exceed the supervisory requirements. In the light of this, we do not plan to introduce an internal model for liquidity risks at present. The tensions on the money markets as a result of the financial market crisis have made it clear how important it is to carry out responsible liquidity planning. HSBC Trinkaus has not entered into any obligations arising from liquidity lines for Special Purpose Vehicles (SPVs). Our defensive business policy approach has proven itself in the crisis and is to be upheld.

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 35.2% (2007: 41.6%) at the end of the year. The improvement in this ratio is due essentially to the increase in customer deposits in 2008 which expresses how much confidence has been placed in the Bank in this difficult market environment.

In the balance sheet of our subsidiary in Luxembourg, short-term customer deposits are essentially set against short-term loans and advances to banks from money market transactions or bonds. As an individual institution, our subsidiary controls its liquidity independently, thereby fulfilling the regulatory requirements in Luxembourg. Moreover, its assets and liabilities are included in the management of the Group's liquidity risk in accordance with the HSBC procedures.

By taking the measures described, we reduce our liquidity risk as far as possible. We believe that liquidity risk within the scope of ICAAP does not necessarily require capital backing, but can be limited via ratios and process-related measures.

Staff

Number of Employees and Persons Receiving Pensions

The number of employees increased during 2008 by 80 compared to the previous year to a total of 1,481 at the end of the year. At the end of 2008, we were paying retirement, widow's and orphan's pensions to 544 recipients, compared to 546 at the end of the previous year.

Training Activities

Eight trainees completed their banking qualification and seven passed their examinations in office communications in the year under report. Two trainees also completed their training in information technology.

Advanced Training

The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore make extremely high demands of our job applicants, also in view of the demographic trends. Only with specially qualified and motivated personnel can we meet our clients' challenging quality standards in the long term. Taking this into consideration, we also pay particular attention to the further training of our employees. 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, leadership and acquisition seminars and communication training. Our various advanced training activities are rounded off by specialised study and training courses as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). When selecting vocational training measures and recruiting suitable trainers, we play close attention to 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 included in the collective pay-scale or not. The incentive provided for our managerial staff in the form of a profit participation scheme and variable remuneration plays a particularly important role here.

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 2008, 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.

On 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 2008, our share price fell 21.9% to € 89.00. The lowest fixing price of the year was € 85.00 and the highest € 117.00. 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

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

Dividend

For the 2008 financial year, we propose paying a dividend of € 2.50 per share (2007: € 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 2008.

German GAAP Consolidated Accounts

Annual Balance Sheet of HSBC Trinkaus & Burkhardt AG

as at 31 December 2008

Assets				31.12.2008	31.12.2007
	in €	in €	in €	in €	in € 000
Cash reserve					
a) Cash on hand			1,722,759.18		1,663
b) Balances with central banks			136,704,879.82		330,252
of which with Deutsche Bundesbank	136,704,879.82				(330,252)
c) Balances with postal giro accounts			0.00		
				138,427,639.00	331,915
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks			0.00		
a) Treasury bills and non-interest bearing treasury notes as well as similar debt instruments issued by public institutions					
of which with Deutsche Bundesbank			0.00		0
Eligible for refinancing	0.00				(0)
b) Bills of exchange					
of which with Deutsche Bundesbank			0.00		0
Eligible for refinancing	0.00			0.00	(0)
Loans and advances to banks					
a) Payable on demand			930,509,175.33		1,592,420
b) Other loans and advances			1,037,306,466.74		2,356,092
				1,967,815,642.07	3,948,512
Loans and advances to customers				5,651,659,784.40	4,632,455
of which secured by mortgages	0.00				(0)
Public-sector loans	1,670,242,376.99				(563,733)
Debt instruments and other fixed-income securities					
a) Money-market instruments					
aa) from public-sector issuers		0.00			0
ab) from other issuers		2,172,353,272.00			4,020,778
			2,172,353,272.00		4,020,778
b) Bonds and other debt instruments securities					
aa) From public-sector issuers		2,478,350,329.16			288,944
of which eligible as collateral with Deutsche Bundesbank	2,469,635,329.16				(288,944)

Assets				31.12.2008	31.12.2007
	in €	in €	in €	in €	in € 000
ab) from other issuers		3,695,315,223.50			2,508,609
			6,173,665,552.66		2,797,553
of which eligible as collateral with Deutsche Bundesbank	3,222,633,320.45				(1,998,768)
c) Own debt instruments			0.00		10,451
Nominal amount	0.00				(7,888)
				8,346,018,824.66	6,828,782
Shares and other non-fixed-income securities				901,792,688.28	1,310,531
Interests in subsidiaries				49,740,920.49	15,494
of which in banks	474,411.12				(474)
in financial services institutions	35,872,592.84				(724)
Shares in affiliated companies				181,322,070.68	166,322
of which in banks	0.00				(0)
in financial services institutions	5,002,428.63				(5,002)
Trust assets				117,489,498.78	103,854
of which trust loans	1,215,346.69				(695)
Recovery claims against public institutions including exchange of debt instruments				0.00	0
Intangible assets				5,162,072.24	5,893
Property, plant and equipment				18,942,632.01	17,908
Unpaid capital				0.00	0
of which called in	0.00				(0)
Treasury shares				0.00	0
Nominal amount	0.00				(0)
Other assets				122,787,882.12	425,840
Deferred income tax assets				30,344,398.40	20,256
Prepaid expenses				35,086,437.83	30,492
Deficit not covered by equity				0.00	0
Total assets				17,566,590,490.96	17,838,254

Shareholders' equity and liabilities				31.12.2008	31.12.2007
	in €	in €	in €	in €	in € 000
Deposits by banks					
a) payable on demand			643,868,674.13		1,368,977
b) with agreed maturities or notice periods			2,067,745,828.55		1,129,160
				2,711,614,502.68	**2,498,137**
Customer accounts					
a) Savings deposits					
aa) with agreed notice periods of three months		11,645,459.94			12,013
ab) with agreed notice periods of more than three months		1,247,354.89			1,227
			12,892,814.83		**13,240**
b) Other liabilities					
ba) payable on demand		5,765,636,999.61			5,100,672
bb) with agreed maturities or notice periods		4,913,515,652.15			4,479,851
			10,679,152,651.76		**9,580,523**
				10,692,045,466.59	**9,593,763**
Securitised liabilities					
a) Debt instruments issued			1,785,900,958.34		2,966,955
b) Other securitised liabilities			0.00		0
of which own acceptances and promissory notes outstanding	0.00				0
				1,785,900,958.34	**2,966,955**
Trust liabilities				117,489,498.78	103,854
of which trust loans	1,215,346.69				(695)
Other liabilities				629,964,395.45	1,202,286
Deferred income				23,192,967.88	30,770
Provisions					
a) Provisions for pensions and similar obligations			134,986,254.82		130,543
b) Tax provisions			74,872,574.68		45,821
c) Other provisions			118,737,311.80		128,089
				328,596,141.30	**304,453**

Shareholders' equity and liabilities				31.12.2008	31.12.2007
	in €	in €	in €	in €	in € 000
Special tax-deductible reserve pursuant to Section 52 EStG in conjunction with Section 5 (1) EStG				0.00	0
Subordinated debt				322,925,837.63	322,926
Profit participation capital				135,790,431.68	135,790
of which maturing in less than two years	35,790,431.68				(35,790)
Fund for general banking risks				0.00	0
Shareholders' equity					
a) Subscribed capital	70,000,000.00		70,000,000.00		70,000
– Contingent capital –	35,000,000.00				(13,500)
b) Reserve premium			210,520,290.63		210,520
c) Retained earnings					
Other retained earnings		333,000,000.00			320,000
			333,000,000.00		**320,000**
d) Unappropriated profit			205,550,000.00		78,800
				819,070,290.63	**679,320**
Total shareholders' equity and liabilities				**17,566,590,490.96**	**17,838,254**

Contingent liabilities					
a) from the endorsement of rediscounted bills			0.00		0
b) Liabilities from guarantees and indemnity agreements			1,431,965,182.66		1,438,656
c) Liability from sureties pledged as collateral security on behalf of third parties			0.00		0
				1,431,965,182.66	**1,438,656**
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			3,489,208,473.99		3,704,324
				3,489,208,473.99	**3,704,324**

Income Statement of HSBC Trinkaus & Burkhardt AG

for the period from 1 January to 31 December 2008

				2008	2007
	in €	in €	in €	in €	in € 000
Interest income from					
a) lending and money-market transactions		338,171,546.34			382,929
b) fixed-income securities and book-entry debt		379,658,971.53			213,793
			717,830,517.87		**596,722**
Interest expenses			487,305,672.64		437,791
				230,524,845.23	**158,931**
Current income from					
a) shares and other non-fixed-income securities			33,422,520.73		107,392
b) interests in subsidiaries			340,526.27		533
c) shares in affiliated companies			1,370,151.62		852
				35,133,198.62	**108,777**
Income from profit pooling, profit transfer and partial profit transfer agreements				56,042,323.13	59,724
Commission income			369,443,480.05		399,508
Commission expenses			161,556,394.62		179,074
				207,887,085.43	**220,434**
Net income from financial transactions (previous year: net expenditure)				115,459,049.20	177,482
Other operating income				28,201,476.00	17,745
Income from reversal of the special tax-deductible reserve				0.00	0
General administrative expenses					
a) Personnel expenditure					
aa) Wages and salaries		160,387,490.54			160,581
ab) Social security contributions as well as expenses for post-employment benefits		30,560,089.65			29,429
of which			**190,947,580.19**		**190,010**
for retirement pensions	15,305,760.60				(15,258)
b) other operating expenses			103,203,477.57		104,831
				294,151,057.76	**294,841**
Depreciation, adjustments and amortisation				8,853,398.93	8,221
Other operating expenses				6,022,145.96	6,330

				2008	2007
	in €	in €	in €	in €	in € 000
Depreciation and adjustments for receivables and certain securities as well as allocations to provisions for credit risks			71,540,644.07		9,409
Income from writeups on loans and certain securities as well as from the release of provisions for credit risks			0.00		0
				71,540,644.07	9,409
Depreciation and adjustments for interests in subsidiaries, shares in affiliated companies and assets treated as securities			5,531,386.04		0
Income from writeups of interests in subsidiaries in affiliated companies and securities treated as fixed assets			0.00		3
				5,531,386.04	3
Expenses from the assumption of losses				956,292.55	6,227
Allocations to the special tax-deductible reserve				0.00	0
Profit from ordinary business activity				286,193,052.30	63,104
Extraordinary income			0.00		0
Extraordinary expenses			0.00		0
Extraordinary result				0.00	0
Income taxes			81,140,629.99		25,348
Other taxes			52,422.31		6
				81,193,052.30	25,354
Income from assumption of losses				0.00	0
Profits transferred under profit pooling, profit transfer or partial profit transfer agreements				0.00	0
Net profit for the year				205,000,000.00	37,750
Profit brought forward from the previous year				550,000.00	41,050
				205,550,000.00	78,800
Withdrawals from share premium				0.00	0
Withdrawals from retained earnings				0.00	0
Withdrawals from profit participation capital				0.00	0
Allocations to revenue reserves				0.00	0
Replenishment of profit participation capital				0.00	0
Unappropriated profit				205,550,000.00	78,800

Notes to the Annual Financial Statements for 2008 of HSBC Trinkaus & Burkhardt AG

Basis of Preparation

General Information

The annual financial statements of HSBC Trinkaus & Burkhardt AG as of 31 December 2008 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch [HGB]) in the 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 figures in brackets refer to 2007.

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 of the end of 2008, HSBC Holdings plc indirectly held 78.6% of HSBC Trinkaus & Burkhardt AG's capital.

Accounting and Valuation Methods

Foreign Currency Translation
Fixed assets are translated at the exchange rate prevailing on the date of purchase except where the exchange rate has been specifically hedged.

All other items denominated in a foreign currency are translated at the mean end-of-year spot exchange rate regardless of the date on which they arise or are due for settlement. In accordance with the imparity principle, any unrealised gains resulting from currency translation are not recognised.

Currency translation gains are recognised in the income statement if the foreign-currency assets, liabilities or spot/forward transactions not allocated to trading business exhibit particular cover with matching currencies, amounts and maturities. In the case of only matching currencies regardless of the term, the currency translation gains are recognised in the income statement only to the extent that they offset any currency translation losses.

Details concerning the treatment of foreign-currency trading items can be found in the following section entitled "Measurement of transactions exposed to market risks".

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 deferred and released proportionately within net 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 adjustments thus calculated are deducted from the carrying amount of the loans and advances.

Borrower's notes and registered debt instruments included in the trading book were valued on the basis of the risk-adjusted fair value approach (see also section "Trading Activities").

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 commitments).

Securities
The measurement of the securities which are not allocated to the trading book, i.e. of shares, debt instruments and other securities, is based on the strict lower-of-cost-or-market principle set forth in Section 253 (3) of the German Commercial Code.

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 fair value (see also Section "Trading Activities").

There are no securities treated as fixed assets.

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 other liabilities even if such transactions are settled by the delivery of borrowed securities or securities bought under agreements to resell.

Warrants
In the year 2008 under report, the warrants and certificates which are debt instruments within the meaning of Section 793 of the German Civil Code (BGB) were for the first time reported under "debt instruments and other fixed-income securities" and "securitised liabilities". They were previously reported under "shares and other fixed-income securities". The previous year's figures were not adjusted.

Trading Activities
In the 2008 financial year, all holdings in the trading books will for the first time be accounted for on the basis of the risk-adjusted fair value approach, the aim being to improve the meaningfulness of the trading result figure in economic terms.

The trading book comprises debt instruments and other fixed-income securities, shares and other non-fixed income securities, registered debt instruments and borrower's note loans as well as forward transactions and derivatives. Switching the valuation method had a beneficial impact on the Bank's earnings situation. In particular, a positive difference that existed in the trading books between the market values and carrying amounts totalling € 170.5 million before taxes at 31 December 2007 was realised in the 2008 financial year.

The Bank's assets and financial situation benefited as well.

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

The gains and losses resulting from the market valuation are reduced by 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 discount is reported under other liabilities.

Measurement of Transactions Exposed to Market Risks

- Interest-related transactions

  In the case of exchange-traded products, the price listed on the exchange in question or the equivalent fair value is applied. In the case of non-exchange-traded products (OTC products), the net present value is applied. This is calculated by discounting future cash flows on the basis of interest-rate and volatility curves and, depending on the product, making allowance for deferred interest.

- Foreign exchange transactions

  Foreign exchange transactions are measured in accordance with the provisions set out in Section 340h of the German Commercial Code.

  Forward and spot currency transactions are translated at the corresponding end-of-year spot or forward exchange rate. In the case of currency options traded in an exchange, the price fixed by such exchange is applied. In the case of non-exchange-traded foreign exchange options, the market price is calculated by reference to the spot exchange rates for the currency in question, the market swap rates and the volatility traded in the market on the balance sheet date.

- Transactions with other price risks

  In the case of equity or index-related transactions traded in a domestic or non-domestic exchange, the price listed on such exchange or the equivalent fair value as of the balance sheet date is applied. The price of non-exchange-traded products is determined by reference to spot equity prices, the yield curve, expected dividend payments and market-related volatility structures.

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

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

There was no accelerated depreciation in 2008.

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 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.

Liabilities and Provisions
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 released proportionately within net interest income/expense. Non-interest-bearing liabilities, e.g. zero coupon bonds, are reported at their present value.

The borrower's note loans included in the trading book were valued on the basis of the risk-adjusted market value approach (see also section "Trading Activities").

Pension provisions are calculated on the basis of the actuarial net present value ("Teilwert") of the obligation calculated using the German entry age normal method at an interest rate of 6%; pension provisions set aside for employees who joined the Company on or after 1 January 2001 and for whom an amount exceeding the net present value of the obligation calculated using the German entry age normal method arises were calculated using the "projected unit credit method" (IFRS). For this purpose, the following parameters were applied: long-term interest rate 6.25%, projected rise in salaries 3.0%, projected pension adjustment 2.0%, projected inflation rate 2.0% and projected increase in contribution threshold amount for social security 2.5%.

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 pension obligations are based on the mortality tables revised in 2005.

Other provisions are calculated in accordance with the principles of prudence to sufficiently allow for all discernible risks.

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

Notes on the Balance Sheet

Analysis of Residual Maturity

Loans and Advances to Banks

in €m	31.12.2008	31.12.2007
a) Payable on demand	930.5	1,592.4
b) Other loans and advances payable in	1,037.3	2,356.1
up to three months	653.4	1,383.0
more than three months up to one year	98.1	718.0
more than one year up to five years	59.0	81.2
more than five years	226.8	173.9
Total	**1,967.8**	**3,948.5**

Loans and Advances to Customers

in €m	31.12.2008	31.12.2007
Payable in		
up to three months	2,632.0	2,842.4
more than three months up to one year	184.4	269.3
more than one year up to five years	1,178.0	595.4
more than five years	1,657.3	925.3
Total	**5,651.7**	**4,632.4**

Deposits by Banks

in €m	31.12.2008	31.12.2007
a) Payable on demand	643.9	1,369,0
b) With agreed maturities or notice periods	2,067.7	1,129.1
Payable in		
up to three months	1,913.7	1,089.1
more than three months up to one year	128.3	24.8
more than one year up to five years	21.6	10.6
more than five years	4.1	4.6
Total	**2,711.6**	**2,498.1**

Customer Accounts

in €m	31.12.2008	31.12.2007
a) Savings deposits	12.9	13.2
Payable in		
up to three months	11.7	12.0
more than three months up to one year	0.1	0.1
more than one year up to five years	1.1	0.2
more than five years	0.0	0.9
b) Other liabilities	10,679.1	9,580.6
ba) Payable on demand	5,765.6	5,100.7
bb) With agreed maturities or notice periods	4,913.5	4,479.9
Payable in		
up to three months	3,089.1	2,744.9
more than three months up to one year	424.4	128.3
more than one year up to five years	359.4	306.0
more than five years	1,040.6	1,300.7
Total	**10,692.0**	**9,593.8**

Securitised Liabilities

in €m	31.12.2008	31.12.2007
a) Debt instruments issued payable in	1,785.9	2,967.0
up to three months	249.9	313.5
more than three months up to one year	594.3	1,441.4
more than one year up to five years	659.9	865.3
more than five years	281.8	346.8
b) Other securitised liabilities payable in	0.0	0.0
up to three months	0.0	0.0
more than three months up to one year	0.0	0.0
Total	**1,785.9**	**2,967.0**

Affiliated Companies – Receivables and Liabilities

in €m	31.12.2008	31.12.2007
Loans and advances to banks	695.9	1,805.8
Loans and advances to customers	146.9	82.6
Shares	21.0	8.1
Debt instruments	2,699.9	3,856.3
Deposits by banks	1,813.0	964.2
Customer accounts	178.2	206.8
Securitised liabilities	0.0	0.0
Subordinated debt	0.0	0.0

Subsidiaries – Receivables and Liabilities

in €m	31.12.2008	31.12.2007
Loans and advances to banks	0.0	0.0
Loans and advances to customers	1.3	1.4
Debt instruments	0.0	0.0
Deposits by banks	0.0	0.0
Customer accounts	0.0	0.9
Securitised liabilities	0.0	0.0
Subordinated debt	0.0	0.0

Trust Activities

Trust assets and liabilities break down as follows:

Trust Assets

in €m	31.12.2008	31.12.2007
Loans and advances to banks	0.0	0.0
Loans and advances to customers	1.2	0.7
Equity interests held in trust	116.3	103.2
Total	117.5	103.9

Trust Liabilities

in €m	31.12.2008	31.12.2007
Deposits by banks	0.0	0.0
Customer accounts	117.5	103.9
Total	117.5	103.9

Foreign Currency

As of 31 December 2008, assets denominated in a foreign currency were valued at € 1,057.6 million (€ 1,146.5 million). Total liabilities denominated in a foreign currency came to € 1,509.1 million (€ 1,301.5 million).

Loans and Advances to Banks

Credit balances with a nominal amount of € 21.4 million (€ 827.2 million) were pledged as collateral for securities loan transactions as of the balance sheet date.

The liabilities include borrower's note loans and registered debt instruments in the trading book. They were measured on the basis of the risk-adjusted fair value approach (see also section "Trading Activities").

Loans and Advances to Customers

This item includes loans and advances with an indefinite settlement period in the amount of € 129.1 million (€ 242.2 million).

The liabilities include borrower's note loans in the trading book. They were valued on the basis of the risk-adjusted market value approach (see also section "Trading activities").

Debt Instruments and Other Fixed-Income Securities

in €m	31.12.2008	31.12.2007
Liquidity reserve	1,366.5	583.2
Trading book	6,979.5	6,245.6
Total	8,346.0	6,828.8

Securities with a carrying amount of € 2,576.1 million (€ 4,342.1 million) are eligible for listing on an exchange but are not listed.

Debt instruments with a nominal value of € 4,145.5 million (€ 1,767.0 million) were available for use as collateral for marginal lending facilities on the balance sheet date. No open market transaction with Deutsche Bundesbank was outstanding (€ 100.0 million) as of the balance sheet date.

In the year 2008 under report, the warrants and certificates which are debt instruments within the meaning of Section 793 of the German Civil Code (BGB) totalling € 35.3 million were for the first time reported under debt instruments and other fixed-income securities.

As in the previous year, no securities had been sold under agreements to repurchase as of the balance sheet date.

Fixed-rate securities with a nominal value of € 1,043.8 million (€ 557.0 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 € 2,499.1 million (€ 4,299.4 million) will be due for settlement in 2009.

For the first time, the trading book was valued on the basis of the risk-adjusted market value approach.

Shares and Other Non-Fixed-Income Securities

in €m	31.12.2008	31.12.2007
Liquidity reserve	518.1	764.6
Trading book	383.7	545.9
Total	901.8	1,310.5

This item includes securities eligible for listing on an exchange of € 428.3 million (€ 736.9 million). Securities with a carrying amount of € 3.4 million (€ 10.9 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 € 473.5 million (€ 573.6 million).

Equities with a carrying amount of € 22.5 million (€ 286.1 million) have been pledged as collateral for securities lending operations. As of the balance sheet date, equities with a carrying amount of € 311.9 million (€ 952.2 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.

Under the terms of a contractual trust arrangement (CTA), the Bank transferred all the shares in a special fund with a carrying amount of € 145.8 million (€ 145.8 million) to a trust company on 1 September 2005.

For the first time, the trading book will be measured on the basis of the risk-adjusted fair value approach.

Subordinated Assets

in €m	31.12.2008	31.12.2007
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Debt instruments		
Other issuers	69.5	85.8
Own debt instruments	0.0	0.0

Interests in subsidiaries and Shares in Affiliated Companies

The interests in subsidiaries include listed securities with a carrying amount of € 10.2 million (€ 0.0 million). As in the previous year, shares in affiliated companies do not include any shares eligible for listing in an exchange.

A list of the investments can be found on pages 78 to 79.

Fixed Assets

Property, plant and equipment comprise business and operating equipment with a carrying amount of € 18.7 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 2008, minor-value assets of € 0.8 million (€ 0.7 million) were written off immediately in the financial statements of the AG, i.e. the parent company.

Movements in fixed assets are analysed on pages 80 to 81.

Treasury Shares

As in the previous year, HSBC Trinkaus & Burkhardt AG did not hold any treasury shares at the end of 2008. As of the balance sheet date, 540 (540) shares in HSBC Trinkaus & Burkhardt AG, equivalent to 0.002% (0.002%) of its share capital, were pledged to the Bank as collateral in connection with a loan transaction.

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 6,886 (14,861) treasury shares in the course of 2008, equivalent to 0.03% (0.06%) of its share capital, which it then resold. The average purchase price per share came to € 100.97 (€ 113.38). The average selling price stood at € 100.81 (€ 115.01). The expenditure from these transactions is included in net operating profit. The largest holding on any day was 3,284 shares (8,507 shares) or 0.01% (0.03%) of the share capital.

Other Assets

Other assets primarily comprise tax reimbursement claims of € 94.6 million (€ 127.4 million) and receivables from affiliated companies of € 66.6 million (€ 70.0 million) as well as collateral provided for futures contracts of € 11.9 million (€ 6.7 million).

Deferred Income Tax Assets

This item includes deferred income tax assets of € 30.3 million (€ 20.3 million) arising from differences between commercial and tax law in the timing of the recognition of expenses.

Prepaid Expenses

Prepaid expenses comprise:

in €m	31.12.2008	31.12.2007
Discounts from liabilities	2.7	2.8
Premiums from receivables	27.6	11.9

Deferred income comprises:

in €m	31.12.2008	31.12.2007
Discounts from receivables	20.1	20.5
Premiums from liabilities	3.0	3.6

Other Liabilities

Other liabilities primarily comprise the fair values from the derivative financial instruments which are held for trading, totalling € 530.8 million (see also section "Trading activities"). They also include replacement obligations under short sales of € 37.4 million (€ 577.9 million), tax liabilities of € 14.2 million (€ 27.8 million) and deferred interest on profit participation capital and subordinated liabilities of € 15.7 million (€ 15.7 million).

Securitised Liabilities

In the year 2008 under report, the warrants and certificates which are debt instruments within the meaning of Section 793 of the German Civil Code (BGB) totalling € 7.8 million were for the first time reported under securitised liabilities.

Provisions

Pension Provisions
All pension obligations recognised in the balance sheet have been verified by actuarial reports.

Tax Provisions
As in the previous year, the parent-company financial statements do not include any deferred taxes.

Other Provisions

in €m	31.12.2008	31.12.2007
Provisions for credit risks	5.1	6.5
Personnel provisions	88.0	86.2
Other provisions	25.6	35.4
Total	118.7	128.1

Subordinated Debt

Liabilities include subordinated debt instruments and borrower's note loans with a total value of € 322.9 million (€ 322.9 million). In 2008, interest expenditure on all subordinated debt came to € 16.2 million (€ 15.6 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%	128.2
5% to less than 6%	167.1
6% to less than 7%	0.0
7% to less than 8%	2.6
8% to less than 9%	0.0
Fixed rates	297.9
Variable rates	25.0
Total	**322.9**

Repayment of Subordinated Debt

Interest	Nominal amount (in €m)
Up to one year	38.6
One year up to five years	38.6
More than five years	245.7
Total	**322.9**

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 and any procedures to avert insolvency.

Subordinated debt of € 296.1 million (€ 299.7 million) is included in the calculations of liable equity in accordance with Section 10 (5a) of the German Banking Act.

Profit Participation Capital

The Bank utilised the authorisation granted by the shareholders on 16 June 1992 to issue profit participation certificates in December 1993.

The holders of profit participation certificates receive an annual dividend of 7.0% with a prior ranking over the shareholders' profit entitlement.

The profit participation certificates took effect in December 1993 and expire at the end of 2008; they will be repaid at their nominal amount on 30 June 2009 subject to the provisions governing participation in an unappropriated loss.

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 bearer and 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 bearer and registered profit participation certificates. The bearers of the profit participation certificates have no right of termination and of premature repayment of their capital.

Shareholders' Equity

The AG's subscribed capital is unchanged at € 70.0 million. In accordance with the resolution passed by the shareholders at their Annual General Meeting on 9 June 1998, it is divided into 26,100,000 no-par-value bearer shares.

The share premium is unchanged at € 210.5 million. Pursuant to the resolution passed at the Annual General Meeting of 17 June 2008, an amount of € 65.3 million (€ 78.8 million) was distributed from the unappropriated profit for 2007. A sum of € 13.0 million was retained and profit of € 0.5 million carried forward. Retained earnings stand at € 333.0 million.

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).

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 € 24.3 million (€ 10.7 million) in fixed-income securities held in the investment book and € 7.1 million (€ 24.0 million) in non-fixed-income securities held in the investment book.

As in earlier years, HSBC Trinkaus & Burkhardt 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.

Notes on Contingencies

Other Obligations

As of the balance sheet date, there were no liabilities from non-genuine sale and repurchase agreements or placement and underwriting obligations for financial instruments.

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.

Obligations from Rental, Lease and Leasing Agreements

in €m	31.12.2008	31.12.2007
Total	57.1	39.3
of which towards affiliated companies	6.6	6.5

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 € 1.6 million is still outstanding.

Transactions Exposed to Market Risk

Transactions with Financial Derivatives

		Nominal amounts due for settlement in		
in €m		Up to 1 year	Over 1 year up to 5 years	More than 5 years
Interest rate-related transactions				
OTC products	FRAs	790	0	0
	Interest-rate swaps	6,785	14,862	9,587
	Interest-rate options – purchases	2,280	2,264	1,502
	Interest-rate options – sales	687	2,110	2,364
	Forward transactions	0	0	0
Exchange-traded products	Interest-rate futures	1,441	951	0
	Interest-rate options – purchases	0	0	191
	Interest-rate options – sales	0	0	191
	Total	**11,983**	**20,187**	**13,835**
Foreign currency-related transactions				
OTC products	Forex forward transactions *	25,203	2,184	4
	Cross-currency swaps	46	142	12
	Forex options – purchases *	2,113	471	21
	Forex options – sales *	2,420	254	17
Exchange-traded products	Currency futures	0	0	0
	Total	**29,782**	**3,051**	**54**
Equity/index-related transactions				
OTC products	Stock/index options – purchases	83	130	19
	Stock/index options – sales	176	119	225
Exchange-traded products	Stock/index futures	653	0	0
	Stock/index options	5,058	2,051	0
	Total	**5,970**	**2,300**	**244**
Total financial derivatives		**47,735**	**25,538**	**14,133**

* including precious metals options and forward transactions

Nominal amounts		Market value			
		Positive		Negative	
2008	2007	2008	2007	2008	2007
790	263	2	0	2	0
31,234	26,942	753	432	933	399
6,046	9,178	120	179	0	0
5,161	8,431	0	0	152	199
0	319	0	3	0	3
2,392	3,776	5	1	6	3
191	66	0	0	0	0
191	0	0	0	4	0
46,005	**48,975**	**880**	**615**	**1,097**	**604**
27,391	24,488	1,063	476	1,071	472
200	93	17	4	17	5
2,605	2,352	141	131	0	0
2,691	2,200	0	0	142	116
0	2	0	0	0	0
32,887	**29,135**	**1,221**	**611**	**1,230**	**593**
232	588	105	66	0	0
520	207	0	0	205	60
653	1,122	20	24	7	2
7,109	9,012	432	385	618	330
8,514	**10,929**	**558**	**475**	**831**	**392**
87,406	**89,039**	**2,659**	**1,701**	**3,158**	**1,589**

Breakdown of Market Values by Counterparty

		31.12.2008	
in €m		Positive	Negative
OECD	Central governments	0	0
	Banks	2,078	1,801
	Financial institutions	222	313
	Miscellaneous	359	1,043
Non-OECD	Central governments	0	0
	Banks	0	1
	Financial institutions	0	0
	Miscellaneous	0	0
Total		2,659	3,158

Reporting on 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 of 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.

Market Risks

HSBC Trinkaus & Burkhardt AG uses a value at risk approach for calculating market risk. On the basis of an assumed holding period of 10 days and a confidence interval of 99%, value at risk is as follows:

in €m	31.12.2008	31.12.2007
Interest-rate related transactions	2.9	2.9
Forex-related transactions	0.0	0.3
Stock/index-related transactions	3.8	1.1
Total market risk potential	4.4	3.2

Last year, when calculating the market risk potential the regulatory add-on factor of 3.2 for the own models was applied in addition. The previous year's figures have been adjusted accordingly.

Notes on the Income Statement

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 € 1,206.7 million (€ 1,182.5 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 € 7.8 million (€ 13.7 million) generated by affiliated companies in Luxembourg.

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.

Auditor Fees

Auditor fees came to € 679.5 thousand. A sum of € 228.5 thousand was spent on auditing and valuation services, € 18.0 thousand on tax consulting and € 55.0 thousand on other consulting services.

Other Operating Income

Other operating income of € 28.2 million (€ 17.7 million) primarily comprises the proceeds of € 22.2 million from costs recharged to consolidated companies and income of € 2.8 million from the subletting of office space.

This item also includes off-period income of € 1.6 million from the reversal of provisions no longer required and off-period income of € 0.1 million from the sale of items of property, plant and equipment.

Other Operating Expenses

Other operating expenses of € 6.0 million (€ 6.3 million) comprise € 3.4 million for payments made in settlement of claims in connection with the Bank's securities service business and € 2.5 million for provisions for ex gratia services.

Other Disclosures

Staff

Annual average	31.12.2008	31.12.2007
Employees subject to pay-scale agreements	668	621
Employees not subject to pay-scale agreements	751	687
Trainees	35	34
Total	1,454	1,342
of which:		
female	611	561
male	843	781

Liability under Letters of Comfort

HSBC Trinkaus & Burkhardt AG ensures that 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 capable of meeting 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.

Executive Bodies of HSBC Trinkaus & Burkhardt AG

The names of the members of the Management Board and of the Supervisory Board are listed on page 73. The offices held by these persons in other supervisory boards are listed on pages 74 to 77.

Advances and Loans to Members of the Executive Bodies

As of the balance sheet date, two members of the Management Board had overdrafts at the Bank with a total amount of € 44 thousand (€ 0). The loans are subject to an interest rate of 6.0% p.a. No advances or loans had been granted to any members of the Supervisory Board. As in the previous year, there were no contingencies towards third parties in favour of members of the executive bodies.

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 of the 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 (1) No. 9a Sentence 5 – 9 of the German Commercial Code have been omitted.

The fixed remuneration components of all Management Board members for 2008 remained virtually unchanged in comparison with 2007 at € 2,157 thousand (€ 2,112.5 thousand). The variable portion of the remuneration declined to a disproportionate extent in comparison with the Bank's earnings (net income before taxes) to € 5,572.0 thousand (€ 8,466.8 thousand). Moreover, the Management Board also receives a substantially reduced remuneration in shares as long term incentive, in accordance with a payout structure that is specified hereafter. This remuneration element corresponds to a fair value of € 4,228.0 thousand for 2008 (€ 7,308.2 thousand).

Other compensation amounting to € 85.7 thousand (€ 96.6 thousand) essentially comprises remuneration for holding offices on supervisory boards within the Group, the use of company cars, insurance contributions and other non-monetary benefits that are taxable individually.

As in 2007, the performance-tied component for 2008 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 financials 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 for 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 previous year's figures for the share-based compensation were adjusted in the final DRS 17 on account of the changes.

In connection with the change in the Bank's legal status in 2006, the general partners were awarded shares in HSBC Holdings plc in a total amount of € 3.0 million as an incentive to remain on the AG's Management Board. These shares are being awarded in three equal instalments in the years 2006 through 2008 subject to the condition precedent of continued service for the Bank.

In the year under review, payments totalling € 396,991.38 were made to four 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 9 June 2009, the remuneration payable to the Supervisory Board for 2008 will amount to € 1,160,250.00.

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 € 4,514,103.95 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 dependants. Provisions of € 35,909,109.00 have been set aside for former partners and their surviving dependants.

The members of the Board of Directors received remuneration of € 331,800.00.

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 and made it permanently available to the shareholders pursuant to Section 161 of the German Stock Corporations Act.

Profit Appropriation Proposal

in €		Previous year
The income statement closes with distributable profit of	205,550,000.00	78,800,000.00
The Management Board proposes the following appropriation:		
Payment of a dividend of € 2.50 per share on the fully dividend-entitled share capital of € 70,000,000.00		
That is equivalent to a total divided on	65,250,000.00	65,250,000.00
Amount to be retained	130,000,000.00	13,000,000.00
Amount to be carried forward	10,300,000.00	550,000.00
	205,550,000.00	**78,800,000.00**

Düsseldorf, 9 February 2009

The Management Board

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Executive Bodies

Management Board

Andreas Schmitz
(Chairman of theManagement Board), Banker
Paul Hagen, Banker
Dr. Olaf Huth, Banker
Carola Gräfin v. Schmettow, Banker

Executive Committee

Florian Fautz
Trevor Roland Gander
Manfred Krause

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, London, Deputy Chairman,
Executive Director, HSBC Holdings plc

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

Deniz Erkman*, Krefeld,
Bank employee

Dr. Hans Michael Gaul, Düsseldorf,
Former Member of the Management Board of E.ON AG

Friedrich-Karl Goßmann*, Essen,
Bank employee

Birgit Hasenbeck*, Düsseldorf,
Bank employee

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

David H. Hodgkinson, London,
Group Chief Operating Officer, HSBC Holdings plc
(until 15 December 2008)

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

Oliver Honée*, Essen,
Bank employee

Dr. Siegfried Jaschinski, Stuttgart,
Chairman of the Management Board
of Landesbank Baden-Württemberg

Dr. jur. Otto Graf Lambsdorff, Bonn,
Lawyer

Professor Dr. Ulrich Lehner, Düsseldorf,
Former Chairman of the Managing Committee
of Henkel KGaA

Jörn Wölken*, Lohmar,
Bank employee

* Employee representatives

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
	Liquiditäts-Konsortialbank, Frankfurt am Main

Paul Hagen	
	a) none
	b) HSBC Trinkaus Investment Managers SA, Luxembourg[1]
	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Deputy Chairman)[1]
	Falke Bank AG i. L., Düsseldorf
	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf[1]
	International Transaction Services GmbH, Düsseldorf (Chairman)[1]
	RWE Supply & Trading GmbH, Essen

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

Carola Gräfin v. Schmettow	
	a) none
	b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg[1]
	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf (Chairwoman)[1]
	HSBC Trinkaus Investment Managers SA, Luxembourg (Chairwoman)[1]
	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chairwoman)[1]
	Member of the Board of the following company: HSBC Global Asset Management (France) SA, Paris[2]

1 HSBC Trinkaus & Burkhardt Group
2 HSBC Holdings plc Group

Employees

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:

Manfred Krause	
	a) none
	b) HSBC Bank (RR) Ltd., Moscow[2]
	HSBC Bank Polska SA, Warsaw[2]

Dr. Michael Böhm	
	a) HSBC INKA Investment-AG TGV, Düsseldorf (Chairman)[1]
	b) none

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

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

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

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

1 HSBC Trinkaus & Burkhardt Group
2 HSBC Holdings plc Group

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

Supervisory Board Members

The members of our Supervisory Board hold further offices in the following
a) statutory supervisory boards or
b) comparable supervisory bodies:

Dr. Sieghardt Rometsch	
	a) Lanxess AG, Leverkusen
	b) Düsseldorfer Universitätsklinikum, Düsseldorf (Chairman)
	Management Partner GmbH, Stuttgart
	Member of the Board of the following company: HSBC Private Banking Holdings (Suisse) SA,Geneva[2]

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[3]
	B. Braun Medical AG, Lucerne[3]
	B. Braun Medical S.A., Barcelona[3]
	B. Braun Medical International S.L., Barcelona[3]
	B. Braun Surgical S.A., Barcelona[3]
	B. Braun Milano S.p.A., Milan[3]
	Carl-Zeiss-Stiftung, Heidenheim / Jena
	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman)
	Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main
	Findos Investor Fund I GmbH & Co. KG, Munich (Chairman)
	Wilh. Werhahn KG, Neuss
	Member of the Board of the following companies:
	B. Braun of America Inc., Bethlehem[3]
	B. Braun Medical Inc., Bethlehem[3]
	B. Braun Medical Industries Sdn. Bhd., Penang[3]

1 HSBC Trinkaus & Burkhardt Group
2 HSBC Holdings plc Group
3 B. Braun Group

Dr. Hans Michael Gaul	
a)	Siemens AG, Munich
	IVG Immobilien AG, Bonn
	Evonik Industries AG, Essen
	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)
	Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman)[1]
b)	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Chairman)[1]

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

Dr. Siegfried Jaschinski	
a)	Heidelberger Druckmaschinen AG, Heidelberg
b)	Bundesanstalt für Finanzdienstleistungsaufsicht, Bonn
	KfW Kreditanstalt für Wiederaufbau, Frankfurt
	LBBW Immobilien GmbH, Stuttgart
	DekaBank Deutsche Girozentrale, Frankfurt a.M.
	Deutscher Sparkassenverlag GmbH, Stuttgart
	LBBW Equity Partners GmbH & Co. KG, Munich (Chairman)
	LBBW Equity Partners Verwaltungs GmbH, Munich (Chairman)
	Vereinigung der Baden-Württembergischen Wertpapier Börse e.V., Stuttgart

Professor Dr. Ulrich Lehner	
a)	Deutsche Telekom AG, Bonn
	Dr. Ing. h.c. F. Porsche AG, Stuttgart
	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

1 HSBC Trinkaus & Burkhardt Group
2 HSBC Holdings plc Group
3 B. Braun Group

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	Shareholders' equity of the company € 000	Net profit 2008 € 000
Banks and companies similar to banks				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	39,396[2]
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	85,876	20,130
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	455[3]	1,397[3]
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	18,270	762
HSBC INKA Investment-AG TGV	Düsseldorf	100.0	301	1
International Transaction Services GmbH	Düsseldorf	100.0	13,427	−6,344
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	205[2]
HSBC Global Asset Management Deutschland GmbH[6]	Düsseldorf	100.0	5,001	13,637[2]
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,108	549
HSBC Global Asset Management (Austria) GmbH	Vienna	100.0	97	47
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	−2[2]
Specially commissioned companies				
HSBC Trinkaus Real Estate GmbH[7]	Düsseldorf	100.0	167	−956[2]
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	−165	−175
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	6
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	40	9
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	74	13
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	33	8
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH	Düsseldorf	100.0	79	54
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	−1
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	5[4]	−3[4]
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	3,000[2]
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,139	2,074
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	8[2]

	Registered office	Percentage of capital held in the company	Shareholders' equity of the company € 000	Net profit 2008 € 000
Property companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,645	689
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,923	401
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	1,064	297
Grundstücksgesellschaft Kö 2 GmbH	Düsseldorf	100.0	25	–747[1]
Other companies				
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	6,037[8]	1[8]
HSBC Trinkaus Bond Portfolio GmbH	Frankfurt am Main	100.0	50	0
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	30	1
Sino AG[5]	Düsseldorf	26.6	6,472	3,313

1 Including unappropriated profit/loss after distribution of profit
2 Profit and loss transfer agreement
3 Exchange rate: EUR/USD = 1.3980
4 Exchange rate: EUR/CAD = 1.7160
5 Consolidated at equity
6 Renamed: previously HSBC Investments Deutschland GmbH
7 Renamed: previously HSBC Trinkaus & Burkhardt Immobilien GmbH
8 Figures as of 31.12.2007

Changes in Fixed Assets

Property, Plant and Equipment

€ 000	Historical cost 01.01.2008	Additions	Disposals	Reclassifications	Historical cost 31.12.2008
Property-like rights	300.4	0.0	0.0	0.0	300.4
Tangible assets	41,940.7	8,602.1	3,892.1	0.0	46,650.7
Standard software	10,472.1	0.0	1,283.7	0.0	9,188.4
Intangible assets	12,121.9	2,186.6	2,981.6	0.0	11,326.9
Total	64,835.1	10,788.7	8,157.4	0.0	67,466.4

Financial Assets

€ 000	Historical cost 01.01.2008	Additions	Disposals	Reclassifications	Historical cost 31.12.2008
Interests in subsidiaries	15,494.1	42,855.1	588.2	0.0	57,761.0
Shares in affiliated companies	166,595.6	15,000.0	0.0	0.0	181,595.6
Total	182,089.7	57,855.1	588.2	0.0	239,356.6

Accumulated depreciation	Additions	Disposals	Reclassifica-tions	Accumulated depreciation	Residual book values	Residual book values
01.01.2008				31.12.2008	31.12.2008	31.12.2007
84.1	3.6	0.0	0.0	87.7	212.7	216.3
24,294.7	6,679.1	3,028.0	0.0	27,945.8	18,704.9	17,646.0
10,426.7	20.4	1,283.7	0.0	9,163.4	25.0	45.4
6,228.8	2,150.2	2,214.2	0.0	6,164.8	5,162.1	5,893.1
41,034.3	**8,853.3**	**6,525.9**	**0.0**	**43,361.7**	**24,104.7**	**23,800.8**

Accumulated depreciation	Additions	Disposals	Reclassifica-tions	Accumulated depreciation	Residual book values	Residual book values
01.01.2008				31.12.2008	31.12.2008	31.12.2007
0.0	8,020.1	0.0	0.0	8,020.1	49,740.9	15,494.1
273.6	0.0	0.0	0.0	273.6	181,322.0	166,322.0
273.6	**8,020.1**	**0.0**	**0.0**	**8,293.7**	**231,062.9**	**181,816.1**

Auditors' 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, 2008. 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 account of the generally accepted auditing principles prevailing in Germany, as laid down by the Institut der Wirtschaftsprüfer in Deutschland e. V. (IDW, auditors' association). These provisions stipulate that the audit must be organised and carried out in such a manner that it is possible to assess with adequate certainty whether the Bank's accounts and annual financial statements are free of any faults materially affecting the view of its net worth, financial position and earnings situation as conveyed by the financial statements and the management report in light of generally accepted accounting principles. In organising the audit process, knowledge of the Bank's field of activities and its business and legal environment, as well as expectations of possible errors, were taken into account. 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 our audit provides an adequately secure basis for our assessment.

Our audit did not give rise 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, 16 February 2009

KPMG AG Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)

Signed by Becker
Auditor

Signed by Kügler
Auditor

ANNEX B

Annual Report 2008 (consolidated financial statements)

The Annual Report 2008 (consolidated financial statements) are reproduced on the following pages and separately paginated (107 pages, from page B-2 through page B-108).

Annual Report 2008

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2008	2007	Change in %
Results in €m			
Operating revenues	589.3	535.9	10.0
Net loan impairment and other credit risk provisions	4.5	–3.5	>100.0
Administrative expenses	384.2	334.0	15.0
Operating profit	200.6	205.4	–2.3
Profit before taxes	138.2	207.2	–33.3
Tax expenses	48.6	63.2	–23.1
Net profit for the year	89.6	144.0	–37.8
Balance sheet figures in €m			
Total assets	22,205.7	21,066.9	5.4
Shareholders' equity	955.0	968.7	–1.4
Ratios			
Cost:income ratio of usual business activity in %	72.9	62.1	–
Return on equity before tax in %	15.2	24.1	–
Net fee income in % of operating revenues	59.0	59.4	–
Funds under management and administration in €bn	87.2	90.1	–3.2
Employees	2,238	2,101*	6.5
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 €	3.49	5.52	–36.8
Share price as at 31.12. in €	89.0	114.0	–21.9
Market capitalisation in €m	2,323.9	2,975.4	–21.9
Regulatory ratios/ratios pursuant to BIS**			
Tier 1 in €m	754	636	18.6
Regulatory capital in €m	1,151	1,056	9.0
Risk position in €m	8,588	9,606	–10.6
Tier 1 ratio in %	8.8	6.6	–
Equity ratio in relation to risk position in %	13.4	11.0	–

* including ITS
** after the adoption of the accounts

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 1) 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 Trinkaus Real Estate GmbH 2) Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxemburg KG Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	Trinkaus Private Equity Management GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
International Transaction Services GmbH Düsseldorf		

1) Previously HSBC Investments Deutschland GmbH
2) Previously HSBC Trinkaus & Burkhardt Immobilien GmbH

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 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 17 June 2008, 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 2009.

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 Committee of the Supervisory Board. The members of the Personnel Committee of the Supervisory Board in the 2008 financial year were Dr. Sieghardt Rometsch (Chairman), Harold Hörauf and Stuart Gulliver. The Personnel Committee met five times in the 2008 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and a variable component as well as individual guaranteed pension payments. The fixed amounts are paid in twelve equal monthly instalments and examined annually by the Personnel Committee. There is no obligation to amend the fixed compensation. The variable component is stipulated by the Personnel Committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as 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 shares allocated will no longer be transferred in three equal amounts, but in one amount in early 2012. The transfer of the variable compensation is subject to continued service for the Bank at the time of transfer. No share options are granted to the members of the Management Board of the Bank.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2008 financial year can be found in Note 68 Business Relationships with Companies and Persons Defined as Related Parties.

The compensation structure for members of the Supervisory Board is governed in the Articles of Association of HSBC Trinkaus & Burkhardt AG. In addition to the reimbursement of their expenses and the turnover tax accruing on Supervisory Board activities, 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 compensation. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the amounts stated, provided the respective committee has met at least once in the financial year. If a member of the Supervisory Board holds several offices, he/she only 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 2008 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 Mr. Florian Fautz, Mr. Trevor Gander 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
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

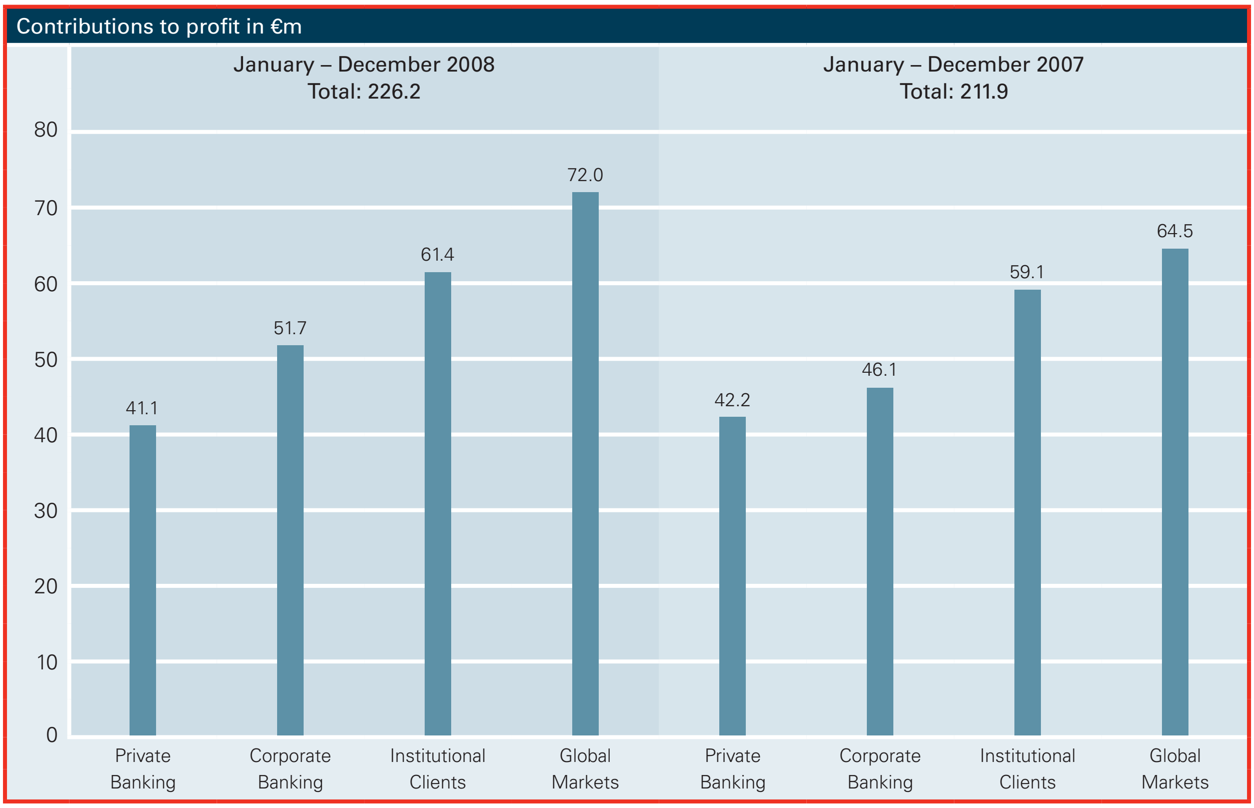
Paul Hagen
Management Board

Operations
Business Process Development
Information Technology
Trading Systems
Securities Services

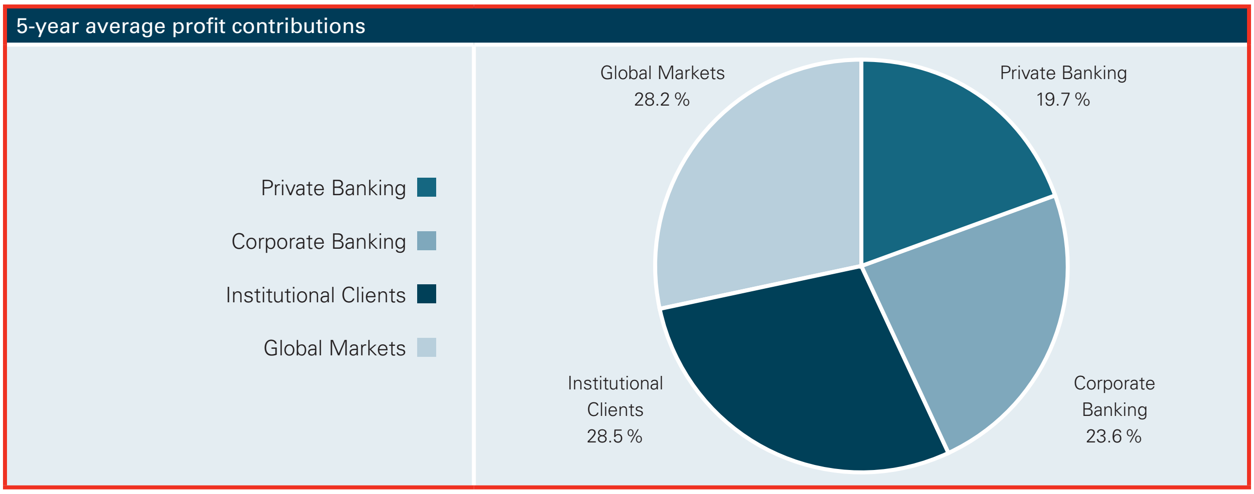
Trevor Gander
Member of the Executive Committee

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.



After deduction of the € 25.6 million net costs incurred by head office functions during 2008, as against € 6.5 million for 2007, the 2008 operating profit was € 200.6 million (2007: € 205.4 million).* The mean contributions to profits over the last five years reveal a very balanced picture:



* Owing to the retrospective application of FRIC 11 (cf. Note 48) the costs incurred by head office functions increased by € 0.6 million in the previous year. Correspondingly, the previous year's operating profit was reduced by € 0.6 million.

Strategic Direction

The previous, rather cautionary statements we made at this point regarding the situation in the German financial and credit industry have not only been confirmed – the reality of the situation goes way beyond them. German financial institutions also entered into on and off-balance sheet risks to the extent never seen before as they were lacking viable client-based business models. They therefore became part of a global problem characterised by very high debt-equity ratios as well as a credit and risk bubble. It bursting almost resulted in the collapse of the banking system and has led to a severe global recession.

Ill-considered lending, a lack of risk awareness, an almost unlimited supply of liquidity and blind trust in rating agencies led to this overleveraging world-wide – affecting not only the banks, but also other market participants.

This partly excessive expansionary environment has given way to total risk aversion and the liquidity that was available previously completely drying up.

As a result, the state is suddenly omnipresent. Enormous rescue packages introduced by governments and central banks brought the downward spiral to a standstill in October 2008. However, the state aid provides only initial support so that the institutions can regain their capacity to act through sound equity funding again and the stimulation of the interbank market. However, the balance sheets still conceal problem assets and the traditional credit risks will also grow owing to the negative cyclical trend. We therefore dare to forecast that the value adjustments required and therefore the need for government support will increase further.

With the aid it provides, the government first of all indiscriminately safeguards banks with bad and good business models. It buys time for both. However, confidence and stability will only return to the financial market when the oversized balance sheets in the German banking sector have again been returned to a reasonable size which is in keeping with the German economy. This requires that institutions whose business model is not lastingly viable will first have to be resized and then merged or wound up.

As the situation on the German banking market gets worse, the virtues and strengths shown by HSBC Trinkaus come into their own more than ever. These include consistent strategy and personnel together with proven relationship management geared exclusively to the clients and their benefit as well as risk awareness, not only in bad, but also in good times.

We shall continue to offer our clients the "best of both worlds" within the framework of the HSBC Group: the continuity, professionalism and individuality of a private bank together with the international service capacity of a global financial services provider. Thanks to this unique combination in the German banking landscape, we have been able not only to strengthen the commitment of many of our clients in recent years, but also gain a large number of new clients. These clients are now benefiting from the relative strength of HSBC Trinkaus in difficult times as well.

We offer our clients not only the full range of traditional banking services, but also focus on sophisticated financial services for complex problems, on both a national and international level. We have always attached importance to incorporating our investment banking operations into the Bank as a whole and gearing them towards the clients. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. But our knowledge of the capital and credit markets' capacity to absorb is also in demand. We use financial derivatives systematically in order to offer our clients meaningful solutions and products. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

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 become a core banking connection for all our clients, 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 future clients. 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 offer. Risk limits and trading strategies are constantly geared towards the Bank's capacity to assume risk.
- Financial innovation 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 offer in the securities business for clients and for other financial institutions. We offer highly-qualified services at competitive prices via our subsidiaries International Transaction Services GmbH (ITS) for securities settlement as well as Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) for fund administration. Both subsidiaries have significant market shares. Added to this are the Bank's services as a depositary bank and in global custody as well as HSBC Global Asset Management's asset management offers in Germany and Austria.
- We draw on the resources of one of the largest banking groups in the world, the HSBC Group. This applies to both the powerful product range and the respective regional network.

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

- We must systematically use the global network, the regional links and the local know-how of the HSBC Group for our clients without having to make compromises in terms of their requirement of individualised private bank servicing.
- We must find and develop useful solutions in the spectrum of ever more complex financial services on the basis of long-term client relationships which are based on trust.
- In partnership with our clients we must develop risk/return profiles which are adjusted to their interests and requirements within the scope of our capacity to assume risk.
- We must ensure that we have a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value chain, and we must 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 on an international level.
- 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.

We firmly believe that this strategy offers us a broad base for ensuring our long-term future business success, even in the German financial market place which is undergoing major changes.

The 2008 Financial Year

The Economic Environment

In 2008, the global economy came not even close to matching the pace of growth seen in the previous two years. Expansive forces were weakened on the one hand by the rise in raw material prices, which continued until mid-2008. The escalation of the financial market crisis left deep marks on the other. In September 2008, the turmoil on the capital markets was fuelled in particular by the collapse of the US investment bank Lehman Brothers. Emerging markets were also affected from then on at the latest, giving the crisis a global character.

For the German economy, the weakening of global demand, which had a particularly hard impact on the export-oriented industrial sectors, was the main growth inhibitor. Correspondingly, external trade had a dampening effect on growth in 2008. Private consumption was not able to generate any positive growth impetus either owing to the oil price shock. The overall economy grew by 1.0% in 2008 based on solid investment activity. However, the economy has already been shrinking compared to the previous period since the second quarter, which means that Germany is in a recession according to the classical definition. At the beginning of November, the federal government felt impelled to support the economy by introducing an initial rescue package. The German banking system has not been able to escape the global downward spiral either and several institutions have only been able to avoid insolvency thanks to government support.

The rise in energy prices also left its mark on inflation, which peaked at 3.3% in Germany and as high as 4.0% in the Eurozone in mid-2008. Despite disappointing economic data, the ECB was prompted by this trend to increase the repo rate in July by 25 bp to 4.25%. Owing to the sharp decline in inflation in the second half of the year and the increasingly dismal prospects for the financial system and the economy overall, the ECB did a U-turn in October, lowering the key interest rate to 2.5% until the end of the year. This is likely to have contributed to the value of the euro falling from USD 1.60 at times to USD 1.40 at the end of the year. Capital market rates also benefited from the interest rate cuts with the yield on ten-year Bunds falling as far as below 3.0%. However, there was little reason for joy among investors on the German stock market with the DAX30 losing around 40% in a year-on-year comparison.

Profitability

The financial market crisis led to extremely differing trends in our income statement in 2008. On the one hand, there were substantial burdens on our financial assets. On the other, we were able to use the trust placed in us by our clients to expand our business in many areas of our operating business. Proprietary trading was also almost able to repeat the extremely good prior-year result. At € 200.6 million, operating profit was only 2.3% lower than the record level of € 205.4 million reached the previous year. This is proof that we are able to implement our strategy very successfully not only in good times, but even and especially when times are difficult.

Good results in our client business and in proprietary trading have been reduced in part by the impact of the financial market crisis on our financial assets. Substantial value adjustments on the Bank's securities positions were required in the 2008 financial year leading on balance to a loss of € 50.0 million from securities held as financial assets. These losses affect mainly bonds as well as equities and subordinated capital of banks and insurance companies, and also mutual funds. As is the case with net loan impairment and other credit risk provisions, we apply extremely stringent standards for calculating the necessary impairments. In addition, net trading income includes losses of € 11.1 million resulting from derivatives in the bank book which do not satisfy the hedge criteria. We do not report these losses under operative trading profit in the calculation of operating profit, but after income from financial assets. We have not made use of the facility of reclassifying financial instruments for the purpose of avoiding write-downs with an effect on income.

Profit before taxes declined by one third to € 138.2 million and net income after tax by 37.8% to € 89.6 million, a result which enables us to pay an unchanged dividend versus the previous year of € 2.50 per share. This corresponds to a dividend total of € 65.3 million, which was fully earned in the operating business.

The individual items of the income statement developed as follows:

Net interest income was up 26.8% to € 139.5 million. We benefited in particular from the major trust placed in us by our clients, as can be seen from the further increase in customer deposits of € 1.3 billion or 12.7% in a year-on-year comparison. The prior-year figure of more than € 10 billion was already the highest level of customer deposits in the history of HSBC Trinkaus. This meant that we did not have to carry out any expensive refinancing transactions, but were able to invest the major surplus funds at significantly better terms and conditions. The selection of suitable addresses for this presented our risk management with a particular challenge at times.

As regards net loan impairment and other credit risk provisions, we made an addition of € 4.5 million again on balance for the first time in several years. While additions and reversals for individually assessed impairments were almost balanced despite still stringent standards, HSBC Trinkaus added € 3.4 million to collectively assessed impairments. This takes into consideration the poor economic prospects which typically only make themselves felt in the loan books with a time delay.

Net fee income was up 9.3% to € 347.6 million. However, it is to be taken into consideration that we fully consolidated International Transaction Services GmbH (ITS) for the first time in 2008. Adjusted for this extraordinary effect, net fee income would have been down 5.0% compared to the previous year. As expected, there was a significant decline in adjusted net fee income from the securities business as our clients are showing restraint on account of the financial market crisis and the dramatic reduction in share prices. In contrast, the foreign exchange, derivatives and international business, lending as well as payments were very successful with both volumes and margins expanding. This was due on the one hand to the trust placed by our clients in our financial strength; on the other, we were able to use the liquidity and capacity to assume risk of the HSBC Group's large global trading books to the major benefit our clients. We were also able to increase net fee income in traditional banking transactions such as the foreign and lending business as well as payments. This is because the choice of banking partners has taken on new significance in particular for our corporate clients, a trend from which we have been able to benefit significantly. On the other hand, our issuing and structuring business as well as Investment Banking clearly suffered from the major plunge in the markets in the year under report.

Despite the major market turmoil, our operative trading profit fell only just short of the extraordinary good prior-year figure with a decline of 1.9% to € 98.2 million. Our proprietary trading activities remain focused on trading with equity-related products. We were again able to win market shares here in the retail business under our HSBC Trinkaus brand. With the issue of more than 55,000 certificates and warrants we reached a new high in 2008. The issuer risk in these products had a major impact for an issuer in the German market for the first time in the 2008 financial year. This meant that the market for these products declined significantly overall, above all with respect to products with a capital guarantee. However, as we focus traditionally on products for investors who are very close to the market and participate actively in trading, this decline only affected us far less than proportionately.

We were almost able to repeat the prior-year result in foreign exchange trading as margins were widened in the second half of the year, therefore almost compensating for the decline in volumes for the year as a whole. By contrast, we reported a substantially lower result in interest rate trading, although there was a very significant increase in the result in the money market business owing to our excellent liquidity position. Client-related trading with registered Pfandbriefe and promissory note loans also did better than in the previous year. These positive results are set against losses in the bond portfolios and interest rate derivatives, the result mainly of spread widening with respect to bonds, Pfandbriefe and bank bonds. As a result, we were able to report trading profits of only € 2.4 million on balance versus € 10.9 million the previous year. Since the year under report was influenced by changes in credit and liquidity spreads to an extent never seen before, we by no means take a positive trading result in interest rate trading for granted, especially as we did not make use of the new option according to IFRS of reclassifying positions. Net trading income according to IFRS also includes losses from derivatives in the bank book of € 11.1 million resulting primarily from the hedging of a loan within the scope of our real estate business.

Administrative expenses were up 15.0% to € 384.2 million. The first-time full consolidation of ITS means that comparability with the previous year is limited here as well. Without this change the increase would have turned out to be far lower at 5.3%. Administrative expenses for the 2008 financial year also include considerable expenses for implementing the flat-rate withholding tax as an extraordinary effect. There was also a further significant increase in other regulatory costs. The number of employees increased by more than 20% compared to the previous year to 2,238, including the 279 employees of ITS for the first time. It also highlights our growth course, which we adjusted to the new conditions in the banking sector, though, and therefore restricted significantly, in particular in the second half of the year. Performance-related remuneration declined significantly in line with the result for the year. Alongside regulatory costs, IT costs increased above all within material expenses. This increase was the result of our unreserved efforts to keep up with the constantly growing requirements in the banking business by making targeted investments in our IT infrastructure as well as rationalising work processes, therefore increasing their efficiency. This will ensure HSBC Trinkaus' future efficiency and is therefore of major strategic importance.

Income from financial assets includes on balance realised losses of € 6.3 million on the one hand as well as unrealised valuation losses of € 43.7 million on the other. As regards the valuation of our strategic financial assets, HSBC Trinkaus has made no compromises in terms of its 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 where there has been a reduction in value of more than 20% or for longer than nine months. For bonds we have assessed the respective issuer and issue risk individually and applied extremely stringent standards, as is the case with net loan impairment and other risk provisions. Market values are calculated predominantly on the basis of market data taken from active markets, either directly using prices observed on these markets or using valuation models, which resort exclusively to observable parameters. As this is not possible only in individual cases, we have alternatively estimated individual parameters ourselves.

The Asset Situation

Total assets rose by 5.4% in the year under report to € 22.2 billion. On the assets side, there was an increase in particular in trading assets of 19.6% to € 12.5 billion as well as financial assets of 35.1% to € 2.1 billion. On the other hand, loans and advances to banks declined by 27.6% to € 3.0 billion and there was a reduction in the cash reserve to € 0.1 billion, which was balance sheet date related. Loans and advances to customers were down by 4.5% year-on-year to € 4.1 billion. This decline, which was balance sheet date related, was the result of loans and advances held on the current accounts which means that lines of credit approved, but not drawn on by clients amounted to € 3.5 billion. On the liabilities side, there was an increase above all in customer accounts of 12.7% to € 11.6 billion as our clients are appreciative of the financial strength of our Bank and the HSBC Group especially in view of the crisis on the financial markets. There was an increase in loans and advances to banks, which was balance sheet date related, of 7.0% to € 2.7 billion while the 5.2% reduction in trading assets to € 6.2 billion reflects the shrinking certificates market in Germany.

HSBC Trinkaus' balance sheet is still characterised by very high levels of customer deposits which account for more than 50% of total assets and almost three times our client lending business. Thanks to this outstanding liquidity position, we can easily compensate for the decline in trading assets. We are faced with completely new challenges in the interbank market as many institutions have only been able to secure their survival by means of government rescue measures in the meantime, and not all of the problems have yet been revealed. We have therefore invested part of our growing liquidity surplus in our financial assets. 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. Nevertheless, the final quarter of the year under report and the beginning of 2009 in particular show clearly that the financial market crisis has also led to enormous spread widening with respect to bonds of German public-sector issuers as governments world-wide are having a substantial influence on the valuation of other public-sector securities via state-guaranteed bank bonds. The market values of both foreign exchange transactions and interest rate derivatives in the trading book rose significantly in the year under report on account of the major moves in the markets.

In the client lending business, we continue to pursue our strategy of growing with our clients and dispensing with synthetic lending business. HSBC Trinkaus is a reliable partner for its clients, especially as times have become more difficult. We pay constant attention here to the profitability of each individual client relationship as a mandatory requirement for a lasting partnership.

The Financial Position

The Bank's liquidity position was very good throughout 2008. We deliberately hold large safety buffers with respect to the quantitative regulatory requirements relating to minimum liquidity with an average of 1.61 for the end-of-month positions according to the Liquidity Ordinance. In addition, we continued to refine our structural liquidity management in the year under report.

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. HSBC Trinkaus uses the IRB approach for this. According to Basel II, it is required for the first time that liable equity capital is committed for operational risks as well. This burden is set against relief with respect to the inclusion of loans, also in the trading books, in particular where there is good credit quality.

In a reporting date comparison, the HSBC Trinkaus Group's positions requiring equity backing according to the regulatory provisions declined overall by 10.6% to € 8.6 billion. In addition to the effects of converting to the German Solvency Regulation (Solvabilitätsverordnung), this also reflects the measures we have introduced to ensure the optimum management of equity capital. We have invested to a greater extent in securities issued by public-sector borrowers with a risk weighting of 0%, thereby deliberately foregoing higher yields. In doing so, we are consistently following our principle that security has priority over profitability. This has proven to be of enormous value in the past and especially in the year under report.

No capital increases were carried out in the HSBC Trinkaus group in 2008, not even for supplementary capital. However, we also valued trading portfolios in the Bank's individual financial statements in accordance with HGB – in the same way as IFRS – with market values that were corrected by a value-at-risk discount for the first time in the year under report. This enables a high allocation to reserves at Trinkaus & Burkhardt AG to improve capital funding. We therefore remain well equipped for the challenges presented by the banking business in Germany in difficult times as well. After the appropriation of profit HSBC Trinkaus shows a capital ratio of 13.4% and a Tier 1 ratio of 8.8%, which by far exceeds the banking supervisory requirements. It is to be taken into consideration here that the Bank raised no hybrid capital, but strengthened the Tier 1 ratio exclusively from capital and reserves. Our dividend remains unchanged compared to the previous year at € 2.50 per share.

Outlook for 2009

The turmoil on the international financial markets slackened the pace of growth significantly at the end of 2008, supposedly creating an unfavourable starting base for economic growth in 2009. We do not anticipate a significant cyclical recovery over the further course of the year despite the rescue packages introduced by various national governments and central banks. With the banking system still beleaguered, the growth impetus generated cannot develop freely. In this respect, there is a threat of a decline in economic performance in the USA, but also in the Eurozone in 2009.

Owing to its major dependence on exports, the German economy will suffer in particular. The slump in order intake should lead to capacities lying idle, an environment in which companies are likely to slash their capital expenditure. A significant increase in unemployment with corresponding pressure on private consumption also has to be anticipated. We assume on balance that gross domestic product will decline by at least 2.5% in Germany, and the decline in the Eurozone is likely to be only slightly weaker at 2.0%. The ECB is expected to ease its monetary policy further in this environment and lower the repo rate to 1.5%. With a view to this general setting, we are not anticipating a significant increase in capital market rates.

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. The support provided with taxpayers' money going into billions has saved several banks from insolvency. The collapse of Lehman Brothers exemplifies the particular significance of systemic risk in the global banking system. The investment bank based on the US model has disappeared. As it has become obvious that a large number of institutions wrongly assessed the risks they entered into and their capacity to assume these risks, many of them will have to embark on strategic reorientation. It is to be taken into consideration here that the losses reported in 2007 and 2008 resulted largely from the balance sheet adjustment of purchased assets, and less from the original client business. As the current drop in economic activity will presumably already entail a heavy risk burden from the client lending business in 2009, the pressure on earnings will not be reduced. It is not clear how the institutions benefiting from the government support measures could repay them.

In this environment, in which new challenges present themselves every day, we plan to use our target client orientation and strong balance sheet to gain further market shares. We should succeed in this as we are able to concentrate on the business with our clients and valuable resources are not tied up by internal restructuring measures. However, there is a risk of considerable competitive distortions in favour of those banks that have shifted responsibility for the errors they made in the past on to the state and are now competing for clients with state guarantees, in other words borrowed financial standing.

There is no need for us to change our business strategy. We remain a client-oriented bank with risk-aware proprietary trading activities and want to remain a reliable partner for our private banking, corporate banking and institutional clients.

We are expecting greater pressure on earnings in 2009 than in the latest financial year, which we concluded successfully compared to the competition. Revenues of banks in Germany will continue to decline in 2009. It is uncertain whether the gain in market shares we are aiming for will be enough for us to maintain revenues on the high level seen in previous years. Net interest income will play a more important role as there will be a substantial decline in fee income owing to the low level of share prices, expected lethargy and the clients' unwillingness to take on risk. It is particularly important to keep costs strictly in check in this scenario. Administrative expenses are not expected to increase in a year-on-year comparison, but we will make sure at the same time that the Bank's infrastructure is not lastingly weakened by insufficient investments. We are therefore assuming a decline in our operating profit.

This scenario is subject to the proviso that there is no major slump in share prices again and no strong increase in credit risks. The solid quality of the entire credit portfolio represents a good starting base for us. We expect the credit standing of individual companies to deteriorate substantially in 2009, especially in export-oriented sectors. As our portfolio shows differing concentrations, a small number of problem cases can already lead to significant individual impairments.

In the past, we always regarded a 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 for our clients. The more favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. For the current financial year we are expecting a ratio at the upper end of the range.

The client segments are likely to show differing trends. The trading activities of our wealthly private clients were far weaker in 2008 owing to the extremely poor performance of the stock markets. As we had significantly underweighted equities in the asset portfolios we manage on behalf of our clients, we were able to avoid major asset losses. We hope that this achievement will support our acquisition efforts. The performance of important asset categories will presumably require the use of structured products in 2009, such as discount certificates, in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident that we can expand our market position and limit the decline in the earnings contribution. We are open to acquisitions in this client segment.

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. International competitors, which have become dependent on capital support from their governments and will therefore have to concentrate on their domestic market, will withdraw from Germany. This will present a particular challenge for the supply of loans to the German Mittelstand. HSBC Trinkaus will remain a reliable partner in the corporate banking business. The procyclicality of Basel II will lead to an increase in capital backing in the lending business as the credit ratings of export-oriented clients in particular will presumably deteriorate. This will make it more difficult to expand the portfolio. We want to use the basis of trust we have developed with our clients through long-term cooperation to broaden our service offer. As there has been significant growth in the number of our clients in recent years, we assume that we will be able to increase the earnings contribution in the corporate banking business.

Our expectations for this year are also cautious as regards our business with institutional clients. The expected low interest rate environment will make it difficult for many institutional investors to achieve their target returns. Individual solutions and products which are tailor-made to the requirements of the institutional clients and which illustrate the targeted risk-return profile are mandatory requirements for standing out as a trusted advisor for our clients. Thanks to our 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 for this; we 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. As clients will only be able to make limited risk capital available for new investments in 2009, we are expecting declining transaction volumes and a lower earnings contribution.

In the wake of our integration into the HSBC Group, we reorganised our trading activities so that our interest rate and foreign exchange trading activities are geared exclusively to supporting our clients' requirements and we benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, the equity derivatives activities are being expanded at HSBC Trinkaus in the wake of the division of labour. A broad product range is expected to support our sales initiative and contribute to increasing our market share in certificates and warrants trading. Our excellent rating is growing in importance as a decision criterion for private investors. Even given an unexpectedly favourable general setting, it will scarcely be possible to reach the high earnings contribution recorded in 2008.

The investments in IT systems will be continued on a clearly defined scale in 2009 in order to further increase efficiency in different areas of the Bank. These will be accompanied by adjustments to effectively support integration into the HSBC Group. We completed the flat-rate withholding tax project on time at the end of 2008, but the ongoing activity of deducting tax and paying it over to the tax office constantly involves increased costs. In order to avoid operative risks, we will introduce additional business process controls, even if this is accompanied by further cost burdens. The challenge of strictly limiting costs is obvious.

The Bank's capital position is good and the Tier 1 ratio after allocations to reserves of over 8% of risk assets will enable the targeted and return-oriented expansion of our market shares.

We will keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business, paying particular interest to asset management as well as fund administration and the depositary bank activities. Like the HSBC Group, we do not want to make use of the offers of government support. We hope that the state intervention will not lastingly distort competition in the banking market at the expense of market participants who responsibly carry out their business without government assistance. If this hope does not fail us, we will be able to continue to pay our shareholders an appropriate dividend.

Risk Management

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 risks, operative and strategic risks and not least also risks to our reputation 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. We avoid reputation and 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 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.

2008 presented major challenges for risk management in banks. Some of them have had to learn the painful lesson that liquidity is not a freely available commodity, but that the old principle of "liquidity before profitability" has justified itself in a drastically changing market environment, as shown by the spectacular collapse of Lehman Brothers, the US investment bank. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2008. HSBC Trinkaus saw major inflows of liquidity from all three client segments throughout the year. We extended our liquidity reserves and paid strict attention when investing the funds accruing in the money and capital markets 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, directly after managing liquidity, was managing counterparty risk. At first we focused primarily on the counterparty risks of other financial market participants. Relieved by the government rescue packages introduced, we then took an increasingly critical look at country risks. The problems in Iceland and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public.

The economic downtrend was reflected clearly in the forecasts given by the companies, but also by the government and the economic research institutes in the final quarter of the year under report. The deterioration of company credit ratings on account of the downswing will put major pressure on banks' corporate lending portfolios, at least in 2009 and 2010. This aspect has also been reflected in risk management at our Bank.

Market risk management at HSBC Trinkaus passed a tough performance test in 2008. Trading with derivative equity products was able to follow on from the outstanding previous year's performance, although managing the books and quoting prices for warrants and certificates at any time pushed both trading divisions and downstream departments to the limits of their capacity. Even erratic moves in share prices undreamt of so far, such as those in the VW ordinary shares, did not lead to a drastic impact on the results thanks to strict limit discipline. The money market business gave an excellent performance thanks to active trading despite restrictive counterparty limit parameters. The trading books for controlling throughout the Bank suffered substantially from spreads widening to this extent, which was not expected. We will continue to develop the limit system selectively based on this new experience.

With respect to operational risk, we had to pay far greater attention above all to settlement risks on several days on which particular events took place.

What we are observing overall is that the higher risk in nearly all areas of the banking business 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 risks,
- the Operational Risks Committee for operational risks 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.

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.

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. They result 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 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. This aspect will become even more important in 2009 as the capacity of many of our clients to assume risk will be reduced by the negative performance of the capital market. 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, can only counteract this risk to a limited extent. Thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way to a certain degree 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. Risk premiums will have to be raised in order to provide adequate cover for the increased risks in the banking business at present. However, if this increase in risk premiums does not come about on account of the government support, it will mean firstly the systematic distortion of the competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation. Secondly, it is unclear how the domestic and international competitors concerned plan to pay the funds raised back to the governments again.

The further modernisation of our IT architecture made no substantial progress in 2008 as resources were tied up for the implementation of the flat-rate withholding tax. It will require the deployment of substantial human and financial resources in future as well. These investments will be accompanied by increased expenses for third-party software and write-downs on software and hardware leading to a further significant increase in the Bank's cost base. In a first step, we moved the emergency computing centre to a more modern location with far greater reliability of operation. We also plan to transfer the primary computing centre to an improved location in the first half of 2009 thus completing this risk-reducing project.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already used 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 along with the accompanying examinations, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to 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 emphasise that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly.

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 the current requirements on a regular basis.

To classify the credit quality of its corporate and institutional clients in the lending business, the Bank uses a 22-stage rating system. We use four different rating systems which cover the customer groups international corporations, German medium-sized companies, 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.

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 with the help of his/her financial information, which is developed using 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.

HSBC Trinkaus adopted the rating systems for large international corporations, banks and financial service providers from the HSBC Group after an internal inspection of its 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 a credit risk provision 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. The credit risk provision fully covers 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.

Credit risk monitoring is conducted on the basis 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 or doubtful 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.

Compliance with country limits is controlled on a daily basis with the help of IT programs that also take risk transfers to or from other countries into account.

The Bank is deliberately reticent about foreign lending, except where the purpose is to assist clients in their business dealings. The local offices of the HSBC Group are better able to assess many risks which are difficult for us to evaluate. We therefore pass these client relationships on to the local 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:

	31.12.2008		31.12.2007	
	in €m	in %	in €m	in %
Loans and advances	**7,062.3**	**26.8**	**8,389.9**	**33.4**
to banks	2,979.7	11.3	4,117.0	16.4
to customers	4,082.6	15.5	4,272.9	17.0
Trading assets	**11,947.8**	**45.3**	**9,888.0**	**39.3**
Bonds and other fixed-income securities	6,945.4	26.3	6,241.9	24.9
Equities and other non-fixed-income securities	383.7	1.5	479.4	1.9
Tradable receivables	2,001.6	7.6	813.1	3.2
OTC derivatives	2,223.4	8.4	1,311.8	5.2
Reverse repos/securities lending	74.4	0.3	1,041.8	4.1
Cash deposits	319.3	1.2	0.0	0.0
Financial assets	**2,118.8**	**8.1**	**1,567.9**	**6.2**
Bonds and other fixed-income securities	1,720.1	6.6	885.8	3.5
Equities	21.4	0.1	41.5	0.2
Investment fund units	142.6	0.5	383.3	1.5
Promissory note loans	127.6	0.5	157.2	0.6
Investments	107.1	0.4	100.1	0.4
Contingent liabilities	**1,747.5**	**6.6**	**1,617.2**	**6.4**
Loan commitments	**3,489.2**	**13.2**	**3,704.3**	**14.7**
Total	26,365.6	100.0	25,167.3	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. 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 exceed.

d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

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**

in €m	31.12.2007				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	4,117.0	4,251.2	1,595.3	3,699.8	13,663.3
Overdue, but not impaired	0.0	1.2	0.0	0.0	1.2
Individually impaired*	0.0	20.5	21.9	4.5	46.9
Total	**4,117.0**	**4,272.9**	**1,617.2**	**3,704.3**	**13,711.4**

* Including the setting-up of provisions for credit risks

Trading assets and financial assets (excluding 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	31.12.2008			31.12.2007		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	2,166.8	700.2	2,867.0	995.9	246.4	1,242.3
AA+ to AA–	3,897.1	682.3	4,579.4	4,889.6	218.4	5,108.0
A+ to A–	600.3	150.0	750.3	117.0	133.2	250.2
BBB+ to BBB–	18.3	103.0	121.3	10.0	71.5	81.5
Lower than BBB–	0.3	13.8	14.1	0.0	28.5	28.5
No rating	262.6	70.8	333.4	229.4	187.8	417.2
Total	**6,945.4**	**1,720.1**	**8,665.5**	**6,241.9**	**885.8**	**7,127.7**

OTC derivatives

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

		31.12.2008		31.12.2007	
		in €m	in %	in €m	in %
OECD	Banks	1,623.0	73.0	1,127.1	86.0
	Financial institutions	224.9	10.1	45.1	3.4
	Other	374.2	16.8	135.6	10.3
Non-OECD	Banks	0.0	0.0	1.4	0.1
	Financial institutions	0.0	0.0	0.0	0.0
	Other	1.3	0.1	2.6	0.2
Total		**2,223.4**	**100.0**	**1,311.8**	**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	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Rating categories 1–2	2,916.0	1,645.0	988.8	1,666.1	7,215.9
Rating categories 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**

in €m	31.12.2007				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Rating categories 1–2	4,103.0	1,791.4	805.3	1,671.9	8,371.6
Rating categories 3–4	14.0	2,454.7	787.3	2,027.9	5,283.9
Rating category 5	0.0	5.1	2.7	0.0	7.8
Total	**4,117.0**	**4,251.2**	**1,595.3**	**3,699.8**	**13,663.3**

Like 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 € 1.9 million in the year under report (2007: € 1.2 million) and are exclusively to customers. € 0.5 million (2007: € 0.8 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 € 0.5 million in the year under report (2007: € 0.7 million).

There are also overdue, but not impaired claims resulting from excess interest of € 0.4 million (2007: € 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 (2007: € 0.5 million).

In addition, there are overdue, but not impaired claims from loans and advances to customers of € 1.0 million (2007: € 0.0 million) for which collateral is available in the form of a land charge, the value of which was € 0.5 million (2007: € 0.0 million). The Bank assumes that it will be adequately serviced from the insolvency estate for the amount exceeding the collateral.

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

HSBC Trinkaus carries out loan loss provisioning 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 is available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by the person responsible. The credit ratings 6 and 7 include problematic exposures for which credit risk provisions have been set up. Credit risk provisions set up to allow for country risks also include exposures with higher credit ratings.

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

in €m	31.12.2008			31.12.2007		
	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						
Rating categories 1–5	0.0	5.2	5.2	0.0	5.2	5.2
Rating category 6	0.0	51.1	51.1	0.0	11.0	11.0
Rating category 7	0.0	3.9	3.9	0.0	4.3	4.3
Total	**0.0**	**60.2**	**60.2**	**0.0**	**20.5**	**20.5**
Individually assessed impairments						
Rating categories 1–5	0.0	3.2	3.2	0.0	3.1	3.1
Rating category 6	0.0	9.6	9.6	0.0	6.8	6.8
Rating category 7	0.0	2.2	2.2	0.0	2.6	2.6
Total	**0.0**	**15.0**	**15.0**	**0.0**	**12.5**	**12.5**
Book value after individually assessed impairments	0.0	45.2	45.2	0.0	8.0	8.0

Within the scope of credit risk provisions HSBC Trinkaus also makes provisions for contingent losses for individual contingent liabilities and loan commitments which amounted to € 5.2 million in the year under report (2007: € 6.6 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 6.4 million (2007: € 3.7 million) for loans and advances and € 1.6 million (2007: € 0.9 million) for contingent liabilities and loan commitments.

Credit-related impairments on financial assets came to € 43.7 million in the year under report (2007: € 3.8 million).

h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements in the form of guarantees, transfers of title as security as well as land charges, the value of which totalled € 38.3 million (2007: € 4.3 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 € 11.3 million were realised and drawn on, respectively, in the 2008 financial year (2007: € 0.9 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:

	31.12.2008		31.12.2007	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	12,584.9	47.7	10,885.3	43.3
Companies and self-employed professionals	9,191.2	34.9	12,909.8	51.3
Public sector	4,278.3	16.2	736.3	2.9
Employed private individuals	311.2	1.2	635.9	2.5
Total	**26,365.6**	**100.0**	**25,167.3**	**100.0**

	31.12.2008		31.12.2007	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	18,120.5	68.7	13,987.9	55.6
Other EU (including Norway and Switzerland)	6,814.3	25.9	9,857.7	39.2
Asia	632.1	2.4	435.3	1.7
South America	430.8	1.6	309.3	1.2
North America	314.1	1.2	470.7	1.9
Rest of Europe	31.4	0.1	61.7	0.2
Africa	18.9	0.1	39.4	0.2
Oceania	3.5	0.0	5.3	0.0
Total	**26,365.6**	**100.0**	**25,167.3**	**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 € 4,579.1 million (2007: € 6,847.5 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.

Basel II

The Basel II framework, which was adopted into national law in 2006 via the introduction of the German Solvency Regulation (Solvabilitätsverordnung), is focused on the amendment of the regulatory capital requirements for the lending business. HSBC Trinkaus made use of the transitional regulation of the Solvency Regulation and implemented the IRB approach with effect from 1 January 2008. The IRB approach leads to the highly differentiated consideration and quantification of credit risk. By introducing the IRB approach, the Bank controls the risk-sensitivity of its portfolio in compliance with the capital adequacy requirements. Credit risk management is an integral part of risk-adjusted controlling throughout the Bank.

The Basel II requirements were implemented at HSBC Trinkaus by a central project group set up to coordinate implementation above all in the fields of credit, accounting and IT. The Bank already introduced a new Basel II-compliant client rating system in 2005. The examinations for certification of the internal rating systems by the German banking supervisory authorities took place in the first quarter of 2007 and in the second quarter of 2008 and there were no serious findings. The preliminary approval given on 13 December 2007 was confirmed.

The Bank works closely together with the HSBC Group as regards the application of methods, systems and processes in connection with Basel II. It benefits significantly from the international transfer of know-how between the Group's various units.

HSBC Trinkaus meets its disclosure obligations pursuant to Pillar 3 through the disclosure made on group level by HSBC Holdings plc, London (Section 319 Paragraph 3 SolvV). We refer in this respect to HSBC's publications on its website (www.hsbc.com) under the heading Investor Relations.

We focused in 2008 on revising the examination results and optimising the rating processes and data quality. Alongside this, we also took the final steps towards implementing standard software for calculating capital adequacy and for generating supervisory reports. The processes designed were also tested on a daily basis and the details systematically improved. All of the necessary processes have been running without any significant problems since 1 January 2008 and all of the requirements have therefore been implemented on time.

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 risks to a level which is acceptable regarding the costs involved. The Operational Risks 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 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.

The Operational Risks Committee's job 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 efficiency of the internal controls.

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. In this way we determine the absolute extent of the risk. On this basis, we allocate the risks to one of four risk categories taking specific consideration of controls already implemented. 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, it 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 or at the subsidiaries are responsible for the information recorded, reflecting the current risk profile at all times.

As the Group-wide coordinator, the secretary of the Operational Risks 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 collaboration with the HSBC Group.

Within the scope of reporting, the greatest operational risks are identified on a monthly basis and classified according to their significance. The Operational Risks Committee regularly discusses the progress being made with the reduction of these risks and makes any necessary decisions.

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 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. 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 in to 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 we have been using for many years 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 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 non-financials in the model as they are of no importance for our proprietary trading. The inclusion of further spread risks in the risk model is being considered. 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 are as follows:

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**

in €m	2007			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.3	1.5	3.4
Foreign exchange transactions	0.3	0.1	0.0	0.4
Equity and index transactions	1.1	1.7	0.9	3.1
Total potential market risk in the trading portfolio	**3.2**	**2.8**	**1.7**	**3.8**

The regulatory mark-up factor of 3.2 was taken into consideration in the figures published the previous year for the calculation of the market risk potential in the trading book. This factor was not taken into consideration in the year under report. For reasons of comparability the prior-year figures have been adjusted accordingly.

Risks relating to interest rates and equities still represent the Bank's greatest market risks. There is hardly any change in the average for 2008 compared to the average for 2007. However, there were significantly greater risks towards the end of 2008 on an account of increased market volatility.

We also use our internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries within the scope of an outsourcing service contract.

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. In 2008, two back-testing anomalies were found throughout the Bank, a fact which suggests that the risk modelling employed is probably on the conservative side given the major distortions on the financial markets, in particular in autumn 2008.

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 being 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 Controlling department 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. The Market Risk Controlling department also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

The average market risk potential in the investment book (99% confidence interval/1-day holding period) came to € 1.2 million (2007: € 3.2 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 executive management level.

Liquidity Risk

We understand liquidity risk as the danger of insolvency. We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities.

The volume of customer sight and term deposits in our balance sheet by far exceeds the volume of customer loans. We are not dependent on constantly raising funds from institutional investors on the capital market (wholesale funding), and therefore have no medium term note or commercial paper programme. The trading divisions, such as equity derivatives trading, are meant to refinance their positions themselves by issuing share certificates and warrants. They transfer the excess liquidity to the Bank's Treasury divisions. The free liquidity from the deposit and trading business is invested almost exclusively in eligible debt instruments issued by public-sector issuers, Pfandbriefe and bank bonds; we also invest in the interbank market in short-dated money market instruments issued by the HSBC Group or other first-class counterparties. This gives HSBC Trinkaus a liquidity cushion which ensures that the Bank is able to pay at all times if there is an unexpectedly strong outflow of deposits. In order to tap into additional liquidity reserves, we have been participating in the Deutsche Bundesbank's new electronic submission procedure for loan receivables since January 2007. In addition, we also took up trading on the EUREX repo platform in August 2008, but almost exclusively as cash provider. In principle we do not use secured borrowings from the central bank via main refinancing operations or marginal lending facilities for the permanent refinancing of our business activities. For us, central bank money represents a form of emergency liquidity in times of crisis, otherwise acting at best as a short-term bridge in the event of time differences between deposits and disbursements. HSBC Trinkaus raised no funds within the scope of main refinancing operations in the whole of the second half of 2008.

The Bank's structural liquidity position is the responsibility of the Asset and Liability Management Committee, which manages it and coordinates it with HSBC. The balance sheet structure and liquidity ratios are constantly monitored as part of this control process. Liquidity commitment reports and simulations with various scenarios as well as process overviews are employed periodically. Our internal cash reserves comfortably exceed the requirements stipulated by the German banking supervisory authorities in the Liquidity Ordinance or by internal limits. In order to identify liquidity risk early on, threshold values are defined in stress testing which relate to liquidity and funding coefficients as well as cash and cash equivalents by time band. These time bands being exceeded leads to escalation procedures. Our three-stage emergency liquidity plan can be activated in the short term and envisages that the Bank can fulfil its payment obligations at any time even without HSBC's support.

The following overview shows Trinkaus & Burkhardt AG's key liquidity ratio in accordance with the Liquidity Ordinance (LiqV):

Key liquidity ratio in accordance with LiqV		
in %	2008	2007
31.12.	1.57	1.56
Minimum	1.51	1.33
Maximum	1.83	1.80
Average	1.61	1.58
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 35.2% (2007: 41.6%) at the end of the year. The improvement in this ratio is due essentially to the increase in customer deposits in 2008 which expresses how much confidence has been placed in the Bank in this difficult market environment.

In the balance sheet of our subsidiary in Luxembourg, short-term customer deposits are essentially set against short-term loans and advances to banks from money market transactions or bonds. As an individual institution, our subsidiary controls its liquidity independently, thereby fulfilling the regulatory requirements in Luxembourg. Moreover, its assets and liabilities are included in the management of the Group's liquidity risk in accordance with the HSBC procedures. By taking the measures described, we reduce our liquidity risk as far as possible. We believe that liquidity risk within the scope of ICAAP does not necessarily require capital backing, but can be limited via ratios and process-related measures.

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	31.12.2008						
		Gross outflow (not discounted)					
	Book value	∑	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 years	> 4 years
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 €m	31.12.2007						
		Gross outflow (not discounted)					
	Book value	∑	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 years	> 4 years
Financial liabilities within the balance sheet:							
Deposits by banks	2,532.7	2,559.4	2,286.6	31.7	48.5	163.2	29.4
Customer accounts	10,283.2	10,403.8	8,840.6	891.4	169.3	185.9	316.6
Certificated liabilities	10.0	13.9	0.4	0.0	0.0	1.2	12.3
Trading liabilities	6,488.4	6,963.2	3,979.0	149.5	518.9	592.4	1,723.4
of which derivatives	1,642.0	1,845.0	202.7	147.2	460.5	389.2	645.4
Provisions	112.4	117.2	105.3	0.0	0.0	0.0	11.9
Other liabilities	106.8	113.0	28.6	43.2	6.5	25.3	9.4
Subordinated capital	458.7	688.5	0.0	3.1	20.4	94.5	570.5
Sub-total	19,992.2	20,859.0	15,240.5	1,118.9	763.6	1,062.5	2,673.5
Financial liabilities outside the balance sheet:							
Loan commitments	3,704.3	3,704.3	3,704.3	0.0	0.0	0.0	0.0
Total	**23,696.5**	**24,563.3**	**18,944.8**	**1,118.9**	**763.6**	**1,062.5**	**2,673.5**

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.

Our internal cash reserves still comfortably exceed the supervisory requirements. In the light of this, we do not plan to introduce an internal model for liquidity risks at present. The tensions on the money markets as a result of the financial market crisis have made it clear how important it is to carry out responsible liquidity planning. HSBC Trinkaus has not entered into any obligations arising from liquidity lines for Special Purpose Vehicles (SPVs). Our defensive business policy approach has proven itself in the crisis and is to be upheld.

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 years	> 4 years	No fixed term	Total
Loans and advances to banks	31.12.2008	2,190.7	561.6	227.4	0.0	0.0	0.0	2,979.7
	31.12.2007	2,058.5	1,306.6	751.5	0.4	0.0	0.0	4,117.0
Loans and advances to customers	31.12.2008	2,688.0	558.9	453.9	149.3	232.5	0.0	4,082.6
	31.12.2007	2,742.7	554.9	583.7	107.1	284.5	0.0	4,272.9
Trading assets*	31.12.2008	12,482.6	0.0	0.0	0.0	0.0	0.0	12,482.6
	31.12.2007	10,436.8	0.0	0.0	0.0	0.0	0.0	10,436.8
Financial assets	31.12.2008	56.4	6.1	23.1	949.6	812.5	271.1	2,118.8
	31.12.2007	29.9	44.8	209.8	303.5	455.2	525.0	1,568.2
Other assets	31.12.2008	16.3	0.0	40.6	0.0	0.0	202.3	259.2
	31.12.2007	10.5	15.1	19.8	0.0	0.0	31.9	77.3
Total	**31.12.2008**	**17,434.0**	**1,126.6**	**745.0**	**1,098.9**	**1,045.0**	**473.4**	**21,922.9**
	31.12.2007	**15,278.4**	**1,921.4**	**1,564.8**	**411.0**	**739.7**	**556.9**	**20,472.2**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon. – 4 years	> 4 years	No fixed term	Total
Deposits by banks	31.12.2008	2,468.9	15.9	62.0	158.2	4.1	0.0	2,709.1
	31.12.2007	2,285.4	31.5	47.4	145.8	22.6	0.0	2,532.7
Customer accounts	31.12.2008	9,833.5	778.0	565.7	192.5	223.1	0.0	11,592.8
	31.12.2007	8,823.4	884.7	165.8	166.0	243.3	0.0	10,283.2
Certificated liabilities	31.12.2008	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2007	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*	31.12.2008	6,152.9	0.0	0.0	0.0	0.0	0.0	6,152.9
	31.12.2007	6,488.4	0.0	0.0	0.0	0.0	0.0	6,488.4
Provisions	31.12.2008	106.3	0.0	0.0	0.0	11.1	0.0	117.4
	31.12.2007	105.3	0.0	0.0	0.0	7.1	0.0	112.4
Other liabilities	31.12.2008	26.1	49.9	11.7	12.2	8.3	0.0	108.2
	31.12.2007	28.6	42.8	6.3	22.6	6.5	0.0	106.8
Subordinated capital	31.12.2008	5.0	3.0	66.3	31.0	353.4	0.0	458.7
	31.12.2007	0.0	0.0	0.0	105.3	353.4	0.0	458.7
Total	**31.12.2008**	**18,592.7**	**846.8**	**705.7**	**393.9**	**610.0**	**0.0**	**21,149.1**
	31.12.2007	**17,731.1**	**959.0**	**219.5**	**439.7**	**642.9**	**0.0**	**19,992.2**

* 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 57.

Staff

Number of Employees and Persons Receiving Pensions

The number of employees increased during 2008 by 410 compared to the previous year to a total of 2,238 at the end of the year. This figure includes 279 employees of the subsidiary International Transaction Services GmbH, which has now been fully consolidated. At the end of 2008, we were paying retirement, widow's and orphan's pensions to 544 recipients, compared to 546 at the end of the previous year.

Training Activities

Eight trainees completed their banking qualifications and nine passed their examinations in office communications in the year under report, of which two at our subsidiary HSBC Global Asset Management (Deutschland) GmbH and one at our subsidiary International Transaction Services GmbH. Two trainees also successfully completed their training in information technology.

Advanced Training

The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore make extremely high demands of our job applicants, also in view of the demographic trends. Only with specially qualified and motivated personnel can we meet our clients' challenging quality standards in the long term. Taking this into consideration, we also pay particular attention to the further training of our employees. 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, leadership and acquisition seminars and communication training. Our various advanced training activities are rounded off by specialised occupational study and training courses as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). When selecting vocational training measures and recruiting suitable trainers, we pay close attention to 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. The incentive provided for our managerial staff in the form of a profit participation scheme and variable remuneration plays a particularly important role here.

Thanks

The Bank continues to owe its success to the special commitment and outstanding performance of its 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 2008, 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 2008, our share price fell 21.9% to € 89.00. The lowest fixing price of the year was € 85.00 and the highest € 117.00. 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

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

Dividends

For the 2008 financial year we propose paying a dividend of € 2.50 per share (2007: € 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 2008.

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2008	31.12.2007	Change	
				in €m	in %
Cash reserve	(20)	139.5	332.3	−192.8	−58.0
Loans and advances to banks	(5, 21)	2,979.7	4,117.0	−1,137.3	−27.6
Loans and advances to customers	(5, 22)	4,082.6	4,272.9	−190.3	−4.5
Net loan impairment provision	(7, 23)	−21.4	−16.2	−5.2	32.1
Trading assets	(5, 24)	12,482.6	10,436.8	2,045.8	19.6
Financial assets	(5, 25)	2,118.8	1,568.2	550.6	35.1
Share of profit in associates	(26)	10.1	15.2	−5.1	−33.6
Property, plant and equipment	(10, 27)	81.1	196.3	−115.2	−58.7
Intangible assets	(11, 27)	56.0	12.3	43.7	>100.0
Taxation recoverable	(15, 28)	17.5	54.8	−37.3	−68.1
current		13.0	54.8	−41.8	−76.3
deferred		4.5	0.0	4.5	100.0
Other assets	(29)	259.2	77.3	181.9	>100.0
Total assets		**22,205.7**	**21,066.9**	**1,138.8**	**5.4**

Liabilities in €m	(Note)	31.12.2008	31.12.2007	Change	
				in €m	in %
Deposits by banks	(5, 32)	2,709.1	2,532.7	176.4	7.0
Customer accounts	(5, 33)	11,592.8	10,283.2	1,309.6	12.7
Certificated liabilities	(34)	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	6,152.9	6,488.4	−335.5	−5.2
Provisions	(14, 36)	117.4	112.4	5.0	4.4
Taxation	(15, 37)	85.1	106.0	−20.9	−19.7
current		81.5	48.4	33.1	68.4
deferred		3.6	57.6	−54.0	−93.8
Other liabilities	(38)	108.2	106.8	1.4	1.3
Subordinated capital	(39)	458.7	458.7	0.0	0.0
Shareholders' equity	(40)	955.0	968.7	−13.7	−1.4
Share capital		70.0	70.0	0.0	0.0
Capital reserve		218.5	216.9	1.6	0.7
Retained earnings		566.8	486.7	80.1	16.5
Consolidated balance sheet profit		99.7	195.1	−95.4	−48.9
Minority interests	(41)	16.5	0.0	16.5	100.0
Total equity and liabilities		**22,205.7**	**21,066.9**	**1,138.8**	**5.4**

Consolidated Income Statement HSBC Trinkaus & Burkhardt

Income statement in €m	(Note)	2008	2007	Change	
				in €m	in %
Interest income		397.6	448.4	−50.8	−11.3
Interest expense		258.1	338.4	−80.3	−23.7
Net interest income	(43)	139.5	110.0	29.5	26.8
Net loan impairment and other credit risk provisions	(7, 45)	4.5	−3.5	8.0	>100.0
Share of profit in associates	(44)	0.5	6.4	−5.9	−92.2
Fee income		606.5	620.7	−14.2	−2.3
Fee expenses		258.9	302.6	−43.7	−14.4
Net fee income	(46)	347.6	318.1	29.5	9.3
Net trading income	(47)	87.1	100.1	−13.0	−13.0
Administrative expenses	(48)	384.2	334.0	50.2	15.0
Income from financial assets	(49)	−50.0	1.9	−51.9	>100.0
Other income	(50)	2.2	1.2	1.0	83.3
Profit before taxes		**138.2**	**207.2**	**−69.0**	**−33.3**
Tax expenses	(51)	48.6	63.2	−14.6	−23.1
Net profit for the year		**89.6**	**144.0**	**−54.4**	**−37.8**
Group profit/loss attributable to minority interests		−1.6	0.0	−1.6	>100.0
Group profit/loss attributable to HSBC Trinkaus shareholders		91.2	144.0	−52.8	−36.7

The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2007: € 2.50 per share).

Earnings per Share

	2008	2007
Net profit after tax in €m	89.6	144.0
Minority interests in €m	– 1.6	0.0
Net profit after tax and minority interests in €m	91.2	144.0
Average number of shares in circulation in million	26.1	26.1
Earnings per share in €	**3.49**	**5.52**
Undiluted earnings per share in €	**3.49**	**5.52**

As in 2007, there were no option and conversion rights outstanding for the purchase of shares in the 2008 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.

Consolidated Statement of Changes in Equity HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Consolidated balance sheet profit	Shareholders' equity	Minority interests	Total including minority interests
At 31 December 2006	70.0	211.4	481.8	121.7	884.9	0.0	884.9
Dividend distribution				–65.3	–65.3		–65.3
Retention from 2006 profit available for distribution			5.3	–5.3	0.0		0.0
Changes in value resulting from currency translation					0.0		0.0
Addition from net profit for the year*				144.0	144.0		144.0
Gains/losses not recognised in the income statement			–1.0		–1.0		–1.0
Effect on capital of first-time consolidation at equity			0.6		0.6		0.6
Share-based payments*		5.5			5.5		5.5
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
Changes in the group of consolidated companies					0.0	18.1	18.1
Changes in value resulting from currency translation					0.0		0.0
Addition from net profit for the year				91.2	91.2	–1.6	89.6
Gains/losses not recognised in the income statement			–41.2		–41.2		–41.2
Share-based payments		1.6			1.6		1.6
At 31 December 2008	70.0	218.5	566.8	99.7	955.0	16.5	971.5

* The retrospective adjustment of the prior-year figures pursuant to IAS 8 in connection with the first-time application of IFRIC 11, Group and Treasury Share Transactions, led to a decline in net profit for the year of € 0.4 million and to an increase in the capital reserve of € 4.0 million.

Comprehensive Income for the Period

in €m	2008	2007
Net profit for the year	89.6	144.0
Gains/losses not recognised in the income statement	–41.2	–1.0
of which from financial instruments	–28.7	–12.4
of which from actuarial results	–12.5	11.4
Total	48.4	143.0
Attributable to:		
Minority interests	–1.6	0.0
HSBC shareholders	50.0	143.0

Cf. Note 40 on the development of unrealised gains/losses from financial instruments.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2008	2007
Net profit for the year	89.6	144.0
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	–10.8	36.6
Net profit from the sale of investments and property, plant and equipment	0.3	0.0
Other adjustments (net)	–48.8	–52.0
Sub-total	30.3	128.6
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	1,137.3	323.1
Loans and advances to customers	193.0	–1,102.1
Securities held for trading	–2,381.2	–1,588.0
Other assets	–691.3	–179.5
Liabilities	1,486.5	2,459.1
Certificated liabilities	0.0	–19.8
Other liabilities	–1.8	5.4
Total adjustments	–257.5	–101.8
Interest receipts	396.9	446.8
Dividend receipts	0.6	8.0
Interest payments	–258.2	–338.5
Income taxes paid	–20.3	–54.8
Cash flow from operating activities	**–108.2**	**88.3**
Proceeds from the sale of		
Investments in property	3.3	0.1
Property, plant and equipment	1.0	1.0
Payments for the acquisition of		
Investments in property	–0.8	–15.0
Property, plant and equipment	–22.8	–131.3
Effects of changes in the group of consolidated companies	0.0	0.0
Cash flow from investing activities	**–19.3**	**–145.2**
Dividends paid to HSBC Trinkaus shareholders	–65.3	–65.3
Dividends paid to minority interests	0.0	0.0
Adjustments to subordinated capital	0.0	18.2
Cash flow from financing activities	**–65.3**	**–47.1**

Cash and cash equivalents at beginning of period	**332.3**	**436.3**
Cash flow from operating activities	–108.2	88.3
Cash flow from investing activities	–19.3	–145.2
Cash flow from financing activities	–65.3	–47.1
Cash and cash equivalents at end of period	**139.5**	**332.3**

Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2008 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 in 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 2008, 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.

The following companies – Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH, Grundstücksgesellschaft Kö 2 GmbH and HSBC INKA Investment-AG TGV, all of which have registered offices in Düsseldorf, and HSBC Global Asset Management (Österreich) GmbH, Vienna – were established during the financial year under report and are therefore included for the first time within the scope of consolidation.

Furthermore, in the year under report HSBC Investments Deutschland GmbH, Düsseldorf, was renamed HSBC Global Asset Management (Deutschland) GmbH and HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf, renamed HSBC Trinkaus Real Estate GmbH.

HSBC Trinkaus also acquired the remaining 49.0% stake in International Transaction Services GmbH (ITS) from T-Systems Enterprises GmbH as at 1 January 2008. ITS will therefore be included in the scope of consolidation for the first time as a fully consolidated subsidiary, and is therefore no longer recognised when accounting at equity (cf. Note 4).

Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH, Düsseldorf, is no longer included within the scope of consolidation.

In addition, we have fully consolidated two special funds (2007: three) and two closed-end property funds (2007: one) 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 27.28, 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 on 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. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings. Translation differences recognised in or without effect on the income statement had no significant impact in the 2008 financial year, as in the previous year.

4 Business Combinations

As at 1 January 2008, HSBC Trinkaus acquired 49.0% of the capital of ITS, which offers securities settlement services for HSBC and other companies. In addition to the purchase price of € 15.0 million, incidental acquisition costs of € 0.3 million for consultancy, legal and notary services were also incurred. The following table shows the amounts set aside for the assets, plus ITS debt at the time of purchase:

in €m	
Assets	
Cash on hand	22.5
Receivables and other assets	4.6
Financial assets	0.1
Property, plant and equipment	0.4
Intangible assets	40.0
Total	**67.6**
Liabilities	
Liabilities	35.9
Provisions	9.9
Prepaid expenses	2.7
Shareholders' equity	19.1
Total	**67.6**

No contingent liabilities existed at the time of purchase.

Following the acquisition of 49.0% of the capital of ITS, HSBC Trinkaus & Burkhardt AG holds a direct or indirect interest in the entire company. In the financial year under report, ITS contributed an annual net loss of € 3.0 million to HSBC Trinkaus' profit for the period.

The scope of the business combination resulted in goodwill of € 8.8 million, which is attributable on the one hand to expected sustainable synergies and to the acquisition of leading expertise in securities settlement on the other.

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, interest rate 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 liabilities	Other liabilities
	Customer deposits	Other liabilities
	Certificated liabilities	Other liabilities
Measurement at fair value	Financial assets	Available-for-sale
	Trading assets	Held-for-trading
	Trading liabilities	Held-for-trading
Off-balance sheet business (IAS 37)	Contingent liabilities	
	Other liabilities	

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 to 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 is 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 at fair value or to the financial assets from the very outset. 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 posted 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 that were 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 holdings.

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 the value vis-à-vis the net acquisition cost 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 determine the market value, since the volatility of possible securities is too great or no probability of event can be attributed 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 cost 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 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
The option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

6 ▸ Hedge Accounting

There were no hedging relationships pursuant to IAS 39 (hedge accounting) as at the balance sheet date.

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. Net loan loss provisioning 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 22 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, impairments/provisions are created on a collective 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 for each of these portfolios on the basis of historical 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

The associated company SINO AG is reported under the share of profit in associates. ITS, which was fully consolidated as a subsidiary as at 1 January 2008, is no longer reported under this item (cf. Note 4).

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.

In 2008, an impairment was recognised on the value of property and buildings totalling € 1.0 million (2007: € 0.1 million) which is disclosed under net other income/expenses (cf. Note 50). Impairments are carried out on the basis of the annual valuations and always reflect the change in the economic valuation of a property. For the purposes of segment reporting, impairments are allocated to Central Divisions/Consolidation (cf. Note 55). As in the previous year, no write-ups were required in the year under report.

Gains/losses from the disposal of property, plant and equipment totalling € 0.3 million (2007: € 0.1 million) were shown in net other income/expenses (cf. Note 50). 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.

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.

Intangible assets also include the goodwill resulting from the acquisition of ITS (cf. Note 4). 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.

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 2008, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 6,886 treasury shares were bought at an average price of € 100.97 (2007: € 113.38) and sold at an average price of € 100.81 (2007: € 115.01). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.01 % (2007: 0.03%) of the share 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 that are used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when the 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

The 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.

In addition, the performance-related remuneration components for employees and the Management Board were, 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 three equal amounts over the subsequent financial years and is fundamentally subject to their continued service for the Bank. Unlike previous years, the equity component for the performance-related compensation for 2008 will be paid in one sum. 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 share option scheme for former Managing Partners resulting from the change in legal form into a German stock corporation will also be spread out over three years. This is also reported as share-based payments settled in the form of equity instruments.

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

On 13 October 2008, the IASB published changes made to IAS 39 and IFRS 7 in relation to the reclassification of financial instruments. These changes are designed to provide short-term relief to companies in view of the current market situation. The EU adopted the changes as applicable law as at 15 October 2008. HSBC Trinkaus does not avail of this possibility.

Standard IAS 2 governs the reporting of inventories. HSBC Trinkaus applied this standard in the year under report for the first time to two properties in Brisbane, Australia and in Luxembourg, which were to be marketed within the framework of property funds. This standard was not relevant for the Bank up to now.

IFRIC 11, Group and Treasury Share Transactions, regulates the reporting in the subsidiaries of share-participation programmes offered by the parent company to the staff members of a subsidiary. Interpretation was taken into consideration for the first time in the financial year. The retrospective application in accordance with IAS 8 resulted in an increase in the capital reserve of € 4.0 million for 2007 as a whole as well as in additional expenditure after taxes of € 0.4 million.

The other standards or interpretations which were applied for the first time in 2008 had no material impact.

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 will be applied for the first time in the year under report. Owing to the distinction always drawn by operating segments, the first-time adoption of this interpretation will not lead to any changes for the comparative period either.

Other standards and interpretations that are not yet compulsory for 2008 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

€m	31.12.2008	31.12.2007
Cash and cash equivalents	2.8	2.0
Balances with central banks	136.7	330.3
Total	139.5	332.3

Balances held with central banks are held mainly with the Deutsche Bundesbank and 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

€m	31.12.2008	31.12.2007
Current accounts	865.6	722.1
Money market transactions	2,049.6	3,313.5
of which overnight money	0.0	0.4
of which term deposits	2,049.6	3,313.1
Other loans and advances	64.5	81.4
Total	2,979.7	4,117.0
of which loans and advances to domestic banks	1,768.0	1,382.3
of which loans and advances to foreign banks	1,211.7	2,734.7

The decline impacts primarily on our deposits within the HSBC Group, since we have increasingly invested our excess liquidity in securities instead of short-term term deposits.

22 ▶ Loans and Advances to Customers

€m	31.12.2008	31.12.2007
Current accounts	1,481.2	1,651.1
Money market transactions	1,023.3	1,025.7
of which overnight money	190.8	279.8
of which term deposits	832.5	745.9
Loan accounts	1,573.5	1,562.5
Other loans and advances	4.6	33.6
Total	**4,082.6**	**4,272.9**
of which loans and advances to domestic customers	2,902.4	3,128.9
of which loans and advances to foreign customers	1,180.2	1,144.0

Notwithstanding the difficult market environment, the volume of our loans and advances to customers remains unchanged, so that we have posted a very moderate decline only in loans and advances to customers. The reduction in the volume held on the current accounts is balance sheet date related.

23 ▶ Net Loan Impairment and Other Credit Risk Provisions

Net loan impairment and other credit risk provisions are made up as follows:

€m	31.12.2008	31.12.2007
Net loan impairment provision	21.4	16.2
Provisions for credit risks	6.8	7.5
Net loan impairment and other credit risk provisions	**28.2**	**23.7**

Net loan impairment provision relates exclusively to impairments on loans and advances to customers. The increase is largely a result of the increase in collectively-assessed provisioning; there are no material defaults of individual exposures.

Net loan impairment provision developed as follows:

	Impairments				Total	
	individually assessed		collectively assessed			
€m	2008	2007	2008	2007	2008	2007
As at 1 January	**12.5**	**11.7**	**3.7**	**5.3**	**16.2**	**17.0**
Reversals	1.0	1.2	0.0	1.6	1.0	2.8
Utilisation	0.2	1.0	0.0	0.0	0.2	1.0
Additions	3.6	3.1	3.4	0.0	7.0	3.1
Currency translation/ transfers	0.1	– 0.1	– 0.7	0.0	– 0.6	– 0.1
As at 31 December	**15.0**	**12.5**	**6.4**	**3.7**	**21.4**	**16.2**

Provisions for credit risks developed as follows:

	Impairments				Total	
	individually assessed		collectively assessed			
€m	2008	2007	2008	2007	2008	2007
As at 1 January	6.6	10.0	0.9	0.9	7.5	10.9
Reversals	1.4	3.9	0.0	0.0	1.4	3.9
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.5	0.0	0.0	0.0	0.5
Currency translation/ transfers	0.0	0.0	0.7	0.0	0.7	0.0
As at 31 December	5.2	6.6	1.6	0.9	6.8	7.5

24 ▸ Trading Assets

€m	31.12.2008	31.12.2007
Bonds and other fixed-income securities	6,945.4	6,241.9
of which:		
public-sector issuers	2,350.4	181.6
other issuers	4,595.0	6,060.3
of which:		
listed	4,519.4	2,976.8
unlisted	2,426.0	3,265.1
Equities and other non-fixed income securities	383.7	479.4
of which:		
listed	383.4	478.5
unlisted	0.3	0.9
Tradable receivables	2,001.6	813.1
Positive market value of derivatives	2,758.2	1,860.6
of which:		
OTC derivates	2,223.4	1,311.8
exchange-traded derivatives	534.8	548.8
Reverse repos	72.3	214.6
Securities lending	2.1	827.2
Collateral items in derivatives trading	319.3	0.0
Total	12,482.6	10,436.8

The sharp rise is due primarily to the purchase of debt instruments from public-sector issuers in the form of bonds and tradable receivables. Certificates of deposit from other banks within the HSBC Group account for a considerable share of other issuers' bonds.

Tradable receivables are recognised largely as promissory note loans and registered bonds. The rise in the positive market value of the derivatives corresponds with the rise in the negative market values 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:

€m	31.12.2008	31.12.2007
Bonds and other fixed-income securities and interest rate derivatives	1,720.1	886.1
of which:		
public-sector issuers	317.2	268.1
other issuers	1,402.9	618.0
of which:		
listed	1,591.7	834.5
unlisted	128.4	51.6
Equities	21.4	41.5
Investment fund units	142.6	383.3
Promissory note loans	127.6	157.2
Investments	107.1	100.1
Total	**2,118.8**	**1,568.2**

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:

€m	31.12.2008	31.12.2007
Bonds and other fixed-income securities	16.0	14.9
Equities	0.0	0.9
Investment fund units	–12.8	16.0
Promissory note loans	15.6	8.6
Investments	35.9	43.4
Total	**54.7**	**83.8**

26 Share of Profit in Associates

The following table provides information on the development of share of profit in associates:

€m	2008	2007
Book value as at 1 January	**15.2**	**1.5**
Additions	0.0	9.8
Share of results of financial year	0.5	5.4
Elimination of interim result	0.0	1.0
Dividend distribution	–0.8	–2.5
Disposal	–4.8	0.0
Book value as at 31 December	**10.1**	**15.2**

In addition to the associated company SINO AG, the participating interest in the ITS joint venture was also recognised as an associated company consolidated at equity (cf. Note 4).

27 ▸ Investment Overview

€m	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2008	**209.5**	**55.8**	265.3	35.5
Increases	0.7	11.1	11.8	64.3
from changes in the scope of consolidation	0.0	0.7	0.7	44.0
Disposals	0.7	4.9	5.6	4.3
Transfers	– 115.2	0.0	– 115.2	0.0
Acquisition costs as at 31.12.2008	94.3	62.0	156.3	95.5
Depreciation as at 01.01.2008	33.9	35.1	69.0	23.2
Scheduled depreciation	1.3	8.4	9.7	19.6
from changes in the scope of consolidation	0.0	0.2	0.2	11.6
Non-scheduled depreciation	1.0	0.0	0.3	0.0
Depreciation of reversals	0.7	3.8	3.8	3.3
Depreciation as at 31.12.2008	35.5	39.7	75.2	39.5
Carrying amount as at 31.12.2008	**58.8**	**22.3**	**81.1**	**56.0**
Carrying amount as at 31.12.2007	**60.4**	**20.7**	**81.1**	**12.3**

The transfer concerns one building under construction that is marketed within the scope of a property fund and is therefore reported as inventories under Other Assets (cf. Notes 18 and 29).

As in the previous year, foreign currency translation did not affect property, plant and equipment values.

28 ▸ Taxation Recoverable

€m	31.12.2008	31.12.2007
Current taxation recoverable	13.0	54.8
Deferred taxation recoverable	4.5	0.0
Total	17.5	54.8

Current taxation recoverable relates predominately to domestic taxes; deferred taxation recoverable relates exclusively to the German tax authorities.

29 ▸ Other Assets

Other assets of € 259.2 million (2007: € 77.3 million) include for the first time two buildings under construction with a book value totalling € 154.7 million, which are marketed within the framework of a closed-end property fund. The placement is likely to enable us to deconsolidate in 2009 a fund allocated to the Central Divisions/Consolidation. This fund generated assets in the amount of € 45.7 million, debt of € 28.2 million plus an annual net loss of € 3.8 million. This item also includes excess cover from our CTA of € 16.5 million (2007: € 31.9 million) and other taxes of € 18.4 million (2007: € 4.9 million).

30 Subordinated Assets

The following overview shows the composition of our subordinated assets:

€m	31.12.2008	31.12.2007
Bonds and other fixed-income securities	145.5	143.5
Profit-participation certificates	22.1	28.4
Total	167.6	171.9

31 Repurchase Agreements and Securities Lending Transactions

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.

€m	31.12.2008		31.12.2007	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Book value of the transferred financial assets	Market value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	47.5	20.9	25.7	0.0
Total	47.5	20.9	25.7	0.0

The following table provides an overview of the securities received, including the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

€m	31.12.2008		31.12.2007	
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	86.9	72.3	243.6	214.6
of which may be sold or pledged	86.9		158.9	
of which are already sold or pledged	0.0		84.7	
Securities lending transactions	221.4	2.1	1,623.9	827.2
of which may be sold or pledged	157.5		1,036.4	
of which are already sold or pledged	63.9		587.5	
Total	**308.3**	**74.4**	**1,867.5**	**1,041.8**

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 relevant transactions were carried out at normal market conditions.

32 Deposits by Banks

€m	31.12.2008	31.12.2007
Current accounts	625.3	611.2
Money market transactions	1,869.5	1,750.3
of which overnight money	26.4	603.2
of which term deposits	1,843.1	1,147.1
Other liabilities	214.3	171.2
Total	**2,709.1**	**2,532.7**
of which deposits by domestic banks	858.0	1,346.5
of which deposits by banks	1,851.1	1,186.2

As at 31 December 2008 deposits by banks secured by charges on real property amounted to € 20.1 million (2007: € 20.5 million). In addition to the balances on our accounts held with our correspondent banks, the deposits by banks comprise mainly deposits from other banks of the HSBC Group.

33 Customer Accounts

€m	31.12.2008	31.12.2007
Current accounts	6,064.5	5,283.9
Money market transactions	5,066.4	4,523.4
of which overnight money	685.8	607.1
of which term deposits	4,380.6	3,916.3
Savings deposits	12.9	13.2
Other liabilities	449.0	462.7
Total	**11,592.8**	**10,283.2**
of which liabilities to domestic customers	8,707.4	7,462.8
of which liabilities to foreign customers	2,885.4	2,820.4

Customer accounts continue to represent our main refinancing source. The increase is the result essentially of a continued strong inflow of funds from institutional clients and investment funds.

34 Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10.0 million (2007: € 10.0 million).

35 Trading Liabilities

€m	31.12.2008	31.12.2007
Negative market value of derivatives	3,190.8	1,642.0
Discount certificates, promissory note loans, bonds and warrants	2,852.4	4,291.8
Delivery obligations from securities sold short	39.5	554.6
Repurchase transactions	0.0	0.0
Securities lending transactions	20.9	0.0
Collateral items in derivatives transactions	47.2	0.0
Derivatives held in the banking book	2.1	0.0
Total	**6,152.9**	**6,488.4**

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 accordingly recognised as trading liabilities pursuant to IAS 39, and are valued at fair value. The rise in the negative market values of the derivatives corresponds with the rising positive market values of the derivatives (cf. Note 24).

The securities and collateral items in the derivatives trading business include funds that we have received as collateral.

36 ▸ Provisions

€m	As at 01.01.2008	Utilisation	Reversals	Additions/ compounding	Transfers	Change to the scope of consolidation	Actuarial result	As at 31.12.2008
Provisions related to human resources	63.9	58.8	1.4	51.0	1.2	1.1	0.0	57.0
Provisions for pensions and similar obligations	7.1	4.0	0.0	3.1	– 15.4	1.9	18.5	11.2
Provisions for credit risks	7.5	0.0	1.4	0.0	0.7	0.0	0.0	6.8
Provisions for other taxes	2.8	0.1	0.0	0.0	0.0	0.0	0.0	2.7
Other provisions	31.1	10.9	1.4	17.6	– 0.5	3.8	0.0	39.7
Total provisions	**112.4**	**73.8**	**4.2**	**71.7**	**– 14.0**	**6.8**	**18.5**	**117.4**

Obligations from performance-related remuneration are essentially reported under provisions related to human resources.

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% 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 € 4.6 million in the year under report (2007: € 4.0 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 %	31.12.2008	31.12.2007
Long-term base rate of interest	5.75	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 higher risk premiums from first-class fixed-interest industrial bonds, the base interest rate was increased to 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 2009.

The provision for pensions and similar obligations also includes the obligations for semi-retirement, early retirement and anniversary payments.

Development of Pension Obligations

€m	2008	2007
Pension obligations as at 1 January	**176.9**	**197.2**
Service costs	5.4	4.3
Interest expense	10.3	8.8
Pensions paid	–9.9	–10.6
Change in the scope of consolidation	2.0	0.0
Transfers and others	0.1	0.0
Change in actuarial gains and losses	–4.8	–22.8
Pension obligations as at 31 December	**180.0**	**176.9**

Breakdown of Pension Obligations

€m	2008	2007	2006	2005	2004
Non-funded pension obligations	**6.7**	**4.3**	**4.8**	**4.8**	**172.9**
Funded pension obligations					
Present value of pension obligations	173.3	172.6	192.4	198.0	0.0
Fair value of plan assets	185.3	201.7	196.6	181.6	0.0
Balance	–12.0	–29.1	–4.2	16.4	0.0
of which plan shortfall	**4.5**	**2.8**	**5.6**	**16.4**	**0.0**
of which plan excess	16.5	31.9	9.8	0.0	0.0
Total pension obligations	**11.2**	**7.1**	**10.4**	**21.2**	**172.9**
of which actuarial gains and losses					
from plan assets	–24.4	–1.1	0.4	1.2	0.0
from plan obligations	–11.4	–16.2	–39.0	–49.5	–25.9

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 € 24.4 million after taxes (2007: € 11.7 million). The rise in the actuarial losses is the result above all of the negative development of plan assets arising from uncertainty on the capital markets in the year under report.

Development of the Fair Value of Plan Assets

€m	2008	2007
Fair value of plan assets as at 1 January	201.7	196.6
Additions/withdrawals	–5.8	–5.8
Estimated income from the plan assets	12.6	12.4
Change in the scope of consolidation	0.1	0.0
Changes in actuarial gains and losses	–23.3	–1.5
Fair value of plan assets as at 31 December	185.3	201.7

The actual losses incurred from plan assets in the year under report amounted to € 10.7 million (2007: income of € 10.9 million).

Breakdown of the Fair Value of Plan Assets

€m	2008	2007
Bonds and other fixed-income securities	132.7	96.4
Equities	15.0	49.0
Investment funds	4.6	29.3
Re-insurance claims from life insurances	14.1	12.7
Closed-end property funds	4.0	4.0
Other	14.9	10.3
Fair value of plan assets as at 31 December	185.3	201.7

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 anticipated losses and provisions for contingent liabilities.

37 ▸ Taxation

€m	31.12.2008	31.12.2007
Current taxation	81.5	48.4
Deferred taxation	3.6	57.6
Total	**85.1**	**106.0**

Current taxation include provisions for income taxes to be paid on the basis of the tax accounts of the fully-consolidated Group companies; our obligations arising from any income taxes 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.

The retrospective adjustment of last year's figures pursuant to IAS 8 arising from the application of IFRIC 11, Group and Treasury Share Transactions, for the first time resulted in a reduction of € 0.2 million in deferred taxation.

Deferred taxation recoverable and deferred taxation are attributable to the following items:

€m	31.12.2008	31.12.2007	Change
	As shown in the balance sheet		
Share-based payments	6.3	5.9	0.4
Trading portfolio*	3.8	50.1	–46.3
Intangible assets	2.1	0.4	1.7
Risk provisioning	1.6	3.6	–2.0
Investments	0.1	4.8	–4.7
Buildings	–0.9	–0.9	0.0
Loss carried forward	–1.1	0.0	–1.1
Provisions	–2.3	–3.5	1.2
Derivatives held in the banking book	–3.0	0.0	–3.0
Pensions	–3.1	–5.0	1.9
Recognised in the income statement	**3.5**	**55.4**	**–51.9**
Financial instruments	7.0	7.6	–0.6
Pensions	–11.4	–5.4	–6.0
With effect on equity	**–4.4**	**2.2**	**–6.6**
Deferred taxes	**–0.9**	**57.6**	**–58.5**
of which taxation recoverable	4.5	14.8	–10.3
of which taxation	3.6	72.4	–68.8

* Balance from measurement differences in all trading activities

38 ▸ Other Liabilities

€m	31.12.2008	31.12.2007
Liabilities from other taxes	15.8	29.0
Deferred income	27.5	24.7
Accrued interest on		
subordinated liabilities	8.3	8.3
profit-participation certificates	7.4	7.4
Other	49.2	37.4
Total	108.2	106.8

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with clients.

The retrospective restatement of the comparative figures pursuant to IAS 8 in conjunction with the first-time application of IFRIC 11, Group and Treasury Share transactions, resulted in a € 3.4 million reduction in other liabilities.

39 ▸ Subordinated Capital

€m	31.12.2008	31.12.2007
Subordinated liabilities (promissory note loans, bonds)	322.9	322.9
Profit-participation certificates	135.8	135.8
Total	458.7	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 several occasions by 29 May 2011 up to a total amount of € 250.0 million. In order to strengthen liable equity further, the Bank issued new registered profit participation certificates in the amount of € 100.0 million in September 2006. No further 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 € 396.2 million (2007: € 399.8 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 2008 financial year, interest payable amounts to € 16.2 million (2007: € 15.6 million) on subordinated liabilities and to € 7.4 million (2007: € 7.4 million) on profit-participation certificates.

Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€m) 31.12.2008	Nominal amount (€m) 31.12.2007
5% or lower	128.2	128.2
Over 5% up to 8%	169.7	169.7
Fixed rates	297.9	297.9
Variable rates	25.0	25.0
Total	**322.9**	**322.9**

Repayment	Nominal amount (€m) 31.12.2008	Nominal amount (€m) 31.12.2007
Up to 1 year	38.5	0.0
Over 1 year up to 5 years	86.2	69.5
Over 5 years	198.2	253.4
Total	**322.9**	**322.9**

40 ▸ Shareholders' Equity

As at 31 December 2008, share capital was unchanged at € 70.0 million. As before, this is divided into 26,100,000 notional no par value shares. The consideration of share-based payments settled in the form of equity instruments increased the capital reserve by € 1.6 million in the year under report.

The retrospective restatement of the comparative figures pursuant to IAS 8 in conjunction with the first-time application of IFRIC 11, Group and Treasury Share Transactions, resulted in a € 0.4 million reduction in net profit for the previous year and increased the capital reserve by € 4.0 million.

A resolution passed at the Annual General Meeting of 17 June 2008 authorised the Management Board to increase the share capital by up to € 35.0 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).

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 shall only be executed to the extent that the holders of conversion or option rights, issued no later than 31 May 2013 on the basis of the authorisation resolution by the Annual General Meeting of 17 June 2008, exercise their conversion or option rights (conditional capital).

Valuation Reserve for Financial Instruments

The change in the valuation reserve for financial instruments, as part of retained earnings, was as follows:

€m	2008	2007
Net valuation reserve as at 1 January	76.2	88.6
Disposals (gross)	–28.6	–6.3
Market fluctuations (gross)	–44.2	–25.8
Impairments (gross)	43.7	3.8
Deferred taxes	0.4	15.9
Net valuation reserve as at 31 December	47.5	76.2

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:

€m	2008	2007
Core capital (Tier I capital)		
Consolidated, core capital as disclosed in the balance sheet	803	687
Intangible assets	–49	–51
Total core capital	754	636
Supplementary capital (Tier II capital)		
Subordinated liabilities	294	297
Profit-participation certificates	100	100
Unrealised profits from listed securities	31	35
Consolidation	–14	–2
Total supplementary capital	411	430
Adjustment items	–14	–10
Regulatory capital excluding ancillary capital	1,151	1,056
Ancillary capital (Tier III)	0	0
Total regulatory capital	1,151	1,056

€m	2008	2007
Risk-weighted assets	6,825	7,356
Market risk equivalent	813	2,250
Operational risks	950	
Risk exposure	**8,588**	**9,606**
Core capital ratio in %	**8.8**	**6.6**
Equity ratio in %	**13.4**	**11.0**

A significant decline in both the risk-weighted assets and other risk positions was reported in 2008. Bearing in mind that last year's figures were determined according to Principle I (which has since been abolished), which varies considerably in terms of the methodology, there is only limited comparability. There was, for example, no need for capital backing for operational risks in the past.

Thanks to this capitalisation after allocation to the reserves, we have been able to continue to pursue our successful business model despite the difficult market environment we are experiencing at the moment.

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 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 this 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 the risk is not quite without its problems. We refined the calculation of economic capital requirements in 2008 and besides ensuring there is a minimum 99.95% probability that the risk cushion exceeds the risk exposure, also carry out a calculation with the "once in 25 years" probability. 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 2008 financial year.

41 Minority Interests

Minority interests comprise investments in closed-end property funds that are in the process of being placed and are fully consolidated in the consolidated financial statements. The share of minority shareholders in the shareholders' equity stands at € 18.1 million and – € 1.6 million in the results.

42 Measurement Classes

Assets as at 31.12.2008					
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 31.12.2008 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	Total
Deposits by banks	2,709,1		2,709.1
Customer deposits**	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 customer deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.2007 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		332.3			332.3
Loans and advances to banks*	4,117.0				4,117.0
Loans and advances to customers*	4,256.7				4,256.7
Trading assets			10,436.8		10,436.8
Financial assets		56.5	0.3	1,511.4	1,568.2
Other financial instruments	0.9	5.6			6.5
Total financial instruments	**8,374.6**	**394.4**	**10,437.1**	**1,511.4**	**20,717.5**
Other assets not included under IAS 39					349.4
Total assets					**21,066.9**

Liabilities as at 31.12.2007 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other	Held-for-trading	
Deposits by banks	2,532.7		2,532.7
Customer deposits**	10,283.2		10,283.2
Certificated liabilities	10.0		10.0
Trading liabilities		6,488.4	6,488.4
Subordinated capital	458.7		458.7
Other financial instruments	47.9		47.9
Total financial instruments	**13,332.5**	**6,488.4**	**19,820.9**
Other liabilities not included under IAS 39			277.3
Shareholders' equity			968.7
Total assets			**21,066.9**

* 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 customer deposits are used in part internally to refinance our trading divisions.

Notes on the Consolidated Income Statement

43 Net Interest Income

€m	2008	2007
Interest income	397.6	448.4
from loans and advances to banks	127.0	227.2
money market transactions	111.1	211.1
other interest-bearing receivables	15.9	16.1
from loans and advances to customers	190.6	155.7
money market transactions	55.7	50.1
other interest-bearing receivables	134.9	105.6
from financial assets	80.0	65.5
interest income	77.2	55.7
dividend income	0.6	1.6
income from subsidiaries	2.2	8.2
Interest expense	258.1	338.4
from deposits by banks	60.0	36.7
money market transactions	47.9	29.4
other interest-bearing deposits	12.1	7.3
from customer deposits	174.0	276.6
money market transactions	82.7	153.4
other interest-bearing deposits	91.3	123.2
from certificated receivables	0.4	2.1
from subordinated capital	23.6	23.0
other	0.1	0.0
Net interest income	139.5	110.0

During the year under report, we succeeded in significantly increasing net interest income by € 29.5 million or 26.8% to € 139.5 million. The higher interest income is attributable above all to the increase in customer deposits; this highlights the high level of trust placed by our clients in the Bank in the crisis affecting financial markets. The funds were placed mainly with the HSBC Group and in the collateralised money market. In contrast, the placement of short-term excess liquidity with other banks declined significantly. In addition, the sharp rise in volume resulted in an increase of € 14.5 million or 22.1% in interest income from financial assets – including income from subsidiaries – to € 80.0 million.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 5.3 million (2007: € 2.4 million).

44 Share of Profit in Associates

In the year under report, the share of profit in associates resulted from our interest in SINO AG. Given that ITS was also reported last year as an associated company (cf. Note 4), the result in the year under report fell by € 5.9 million to € 0.5 million (2007: € 6.4 million).

45 ▸ Net Loan Impairment and Other Credit Risk Provisions

€m	2008	2007
Additions	7.0	3.6
Reversals	2.4	6.7
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.1	0.4
Total	**4.5**	**–3.5**

Additions to net loan impairment and other credit risk provisions amounted to € 4.5 million in 2008 (2007: € –3.5 million). Our conservative stance is therefore unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks.

The rise in risk provisioning is mainly due to additions of € 3.4 million within the scope of collectively assessed impairments against reversals of € 1.6 million the year before. This effect is attributable to the general economic downturn, but not to the specific rating of individual business clients. Owing to the strength of our strict underwriting standards, the quality of our loan portfolio remains appropriate. This is also reflected in our additions to individually assessed impairments, which was unchanged from last year's level of € 3.6 million. Another positive factor is the reversal of individually assessed impairments in the amount of € 2.4 million (2007: € 5.1 million).

46 ▸ Net Fee Income

€m	2008	2007
Securities transactions	231.6	203.7
Foreign exchange transactions and derivatives	61.0	48.2
Issuing and structuring activities	10.9	19.8
International business	13.5	13.0
Investment banking	2.7	9.1
Payments	6.0	5.6
Lending	5.0	4.3
Property business	0.3	0.7
Other fee-based business	16.6	13.7
Total	**347.6**	**318.1**

Net fee income in the year under report rose by € 29.5 million or 9.3% to € 347.6 million and therefore remains a crucial factor to the Bank's success. Net fee income accounted for 59.0% of the Bank's operating profit and therefore exceeded net interest income by a factor of 2.5 (2007: 2.9).

The positive development of net fee income is largely due to the subsidiary ITS (cf. Note 4), which was fully-consolidated for the first time this year and whose securities settlement business accounted for € 45.4 million.

Our issuing and structuring business, as well as Investment banking, weakened significantly due to the market's limited capacity to absorb issues.

Trust activities performed by the Group in its own name, but for the account of third parties, are not recognised in the balance sheet. Net fee income did not include any fees from trust activities in the year under report (2007: € 0.2 million) or fee expenses (2007: € 0.0 million).

47 ▸ Net Trading Income

€m	2008	2007
Equities and equity/index derivatives	87.0	79.0
Foreign exchange	8.8	10.2
Bonds and interest rate derivatives	2.4	10.9
Derivatives held in the banking book	–11.1	0.0
Total	87.1	100.1

At € 87.1 million, net trading income was down € 13.0 million on the prior-year figure (2007: € 100.1 million). The decline is due largely to two factors. Owing to the immense uncertainty on the money and capital markets on the one hand, the credit and liquidity spreads for bonds of public sector issuers widened, leading to corresponding valuation losses in our interest rate portfolio. On the other hand, valuation losses were incurred in the reporting year for the first time on derivatives held in the banking book. In addition, the results from one swap entered into to hedge a strategic interest rate position in the Bank's property business were one of the key factors here.

Income from equity and equity/index derivative transactions in the year under report was increased by € 8.0 million to € 87.0 million. This is welcomed, given the difficult market environment on the one hand and the very high prior-year result on the other. Trading with certificates and warrants is a key success factor here.

48 ▸ Administrative Expenses

€m	2008	2007
Staff expenses	232.3	203.9
Wages and salaries	202.8	181.6
Social security costs	21.5	17.2
Expenses for retirement pensions and other employee benefits	8.0	5.1
Other administrative expenses	134.4	118.8
Impairment losses on property, plant and equipment and on intangible assets	17.5	11.3
Total	384.2	334.0

Other administrative expenses include € 18.8 million (2007: € 21.5 million) in expenses arising from lease payments.

Administrative expenses climbed by 15.0%, from € 334.0 million to € 384.2 million, mainly on account of the first-time inclusion of ITS in the Group. Excluding ITS, the rise would be a more moderate 5.3%, reflecting higher staff numbers among other things. In keeping with the earnings trend, bonus payments for 2008 were considerably lower than in the previous year.

Other administrative expenses include on the one hand the further increase in expenses for IT applications, with the implementation of the flat-rate withholding tax in the banking systems playing a significant role.

The retrospective restatement of the comparative figures pursuant to IAS 8 in conjunction with the first-time application of IFRIC 11, Group and Treasury Share Transactions, resulted in a € 0.6 million increase in staff expenses.

The breakdown of expenses for retirement pensions and other employee benefits is as follows:

€m	2008	2007
Expenses for defined benefit plans	3.1	0.7
of which current service costs	5.4	4.3
of which interest expense	10.3	8.8
of which estimated income from the plan assets	–12.6	–12.4
Expenses for defined contribution plans	4.6	4.0
Other expenses for retirement provisions	0.3	0.4
Total	8.0	5.1

49 ▸ Income from Financial Assets

A loss of € 50.0 million from financial assets was reported in the year under report compared with a profit of € 1.9 million the year before. This loss is attributable among other things to unexpected problems incurred by renowned financial services companies, resulting in a corresponding write-down on their securities in our portfolio. Equities and investment funds in the banking book showing signs of a significant or permanent impairment were written down to their lower market values in the income statement. We deliberately did not use the new accounting convenience to reclassify our holding (cf. Note 18).

On balance, the sale of financial assets – investment funds in particular – generated a loss of € 6.3 million compared with a profit of € 4.0 million the year before.

50 ▸ Net Other Income/Expenses

€m	2008	2007
Other operating income	10.0	11.0
Other operating expenses	6.5	9.7
Other operating income / expenses	**3.5**	**1.3**
Other income	0.1	0.1
Other expenses	1.4	0.2
Other net income	**–1.3**	**–0.1**
Net other income / expenses	**2.2**	**1.2**

Net other operating income/expenses essentially include € 4.9 million (2007: € 5.9 million) from the reversal of other provisions and € 1.7 million (2007: € 1.7 million) in rental income. Other operating expenses of € 1.4 million (2007: € 0.2 million) include for the most part impairments of € 1.0 million (2007: € 0.1 million) on land and property.

51 ▸ Tax Expenses

€m	2008	2007
Current taxes	100.5	35.9
of which off-period	–2.5	0.0
Deferred taxes from change in limited valuation differences	–51.9	42.2
Deferred taxes from changes to the tax rates	0.0	–14.9
Total	**48.6**	**63.2**

As a result of the 2008 corporate tax reform, the corporation tax rate in the year under report is effectively 15.8% (2007: 26.4%). Taking trade income tax into account, the combined tax rate for 2008 is approximately 32.0% (2007: 40.4%). The rate also forms the basis for calculating deferred taxes.

During the year under report, we also valued the trading portfolio in accordance with HGB – in the same way as IFRS – with market values that were corrected by a value-at-risk discount. Existing hidden reserves pursuant to HGB in the trading book were recognised in the income statement and subject to tax. Current taxes payable rose in the year under report and mirroring this, deferred taxes declined considerably.

Income subject to current Luxembourg taxation is generally taxed at a rate of 29.6%. The tax rate of 28.6% that applies as of 1 January 2009 was used to calculate deferred taxes.

The following table shows the relationship between tax expenses derived from profit before taxes and the actual tax expenses reported.

€m	2008	2007
Profit before taxes	146.2	207.2
Tax rate (%)	32.0	40.4
Tax expenses derived from profit before taxes	46.7	83.8
Deferred tax effect from changes to the tax rates	0.0	–14.9
Tax rate differential on income proportions subject to taxation outside of Germany	–1.0	–3.5
Effect from unused losses carried forward	2.0	0.0
Effect from tax-exempt income and non-tax deductible expenses in accordance with Section 8 b KStG	0.9	–3.3
Taxes for previous years	–2.1	0.0
Miscellaneous	2.1	1.1
Reported taxation	**48.6**	**63.2**

52 ▸ Calculation of Operating Profit

€m	2008	2007	Change	
				%
Interest income	397.6	448.4	–50.8	–11.3
Interest expenses	258.1	338.4	–80.3	–23.7
Net interest income	139.5	110.0	29.5	26.8
Net loan impairment and other credit risk provisions	4.5	–3.5	8.0	>100.0
Net interest income after risk provisioning	135.0	113.5	21.5	18.9
Share of profit in associates	0.5	6.4	–5.9	–92.2
Fee income	606.5	620.7	–14.2	–2.3
Fee expenses	258.9	302.6	–43.7	–14.4
Net fee income	347.6	318.1	29.5	9.3
Net trading income	98.2	100.1	–1.9	1.9
Staff expenses	232.3	203.9	28.4	13.9
Other administrative expenses	151.9	130.1	21.8	16.8
Administrative expenses	384.2	334.0	50.2	15.0
Net other operating profit / expenses	3.5	1.3	2.2	>100
Operating profit	**200.6**	**205.4**	**–4.8**	**–2.3**
Income from financial assets	–50.0	1.9	–51.9	>100.0
Results from derivatives held in the banking book	–11.1	0.0	–11.1	100.0
Other net income	–1.3	–0.1	–1.2	>100.0
Profit before taxes	**138.2**	**207.2**	**–69.0**	**–33.3**
Tax expenses	48.6	63.2	–14.6	–23.1
Net profit for the year	**89.6**	**144.0**	**–54.4**	**–37.8**

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 (cf. Note 55). Operative trading profit comprises net trading income from our trading desks but does not include results from derivatives held in the banking book.

53 ▸ Income Statement by Measurement Category

The following overview includes net profit or net loss for every IAS 39 measurement category of financial assets and liabilities. Net profits/losses are a net earnings indicator comprising on the one hand changes in market value recognised in the income statement, disposals of financial instruments, impairments and currency translation effects if necessary. On the other, interest income/expenses as well as fee income/expenses are included in every measurement category.

Measurement category 31 December 2008 €m	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale	Other financial liabilities	Other	Total
Net interest income							
Interest income	307.6	10.0		80.0			397.6
Interest expenses					–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
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	30.0	–258.1	344.0	519.7

Measurement category 31 December 2007 €m	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale	Other financial liabilities	Other	Total
Net interest income							
Interest income	374.4	8.5		65.5			448.4
Interest expenses					–338.4		–338.4
Net fee income							
Fee income	4.5					616.2	620.7
Fee expenses	–0.3					–302.3	–302.6
Net trading income			100.1				100.1
Income from financial assets			0.9	4.8			5.7
Impairments							
Net loan impairment and other credit risk provisions	1.9					1.6	3.5
Income from financial assets				–3.8			–3.8
Total	380.5	8.5	101.0	66.5	–338.4	315.5	533.6

Other Notes

54 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, net trading income and the balance of other operating income and expenses, minus administrative expenses and risk provisioning.

The summary item Other adjustments (net) in the cash flow statement essentially comprises the valuation results of the financial instruments in the trading portfolio at the reporting date, net additions 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 € 139.5 million (2007: € 332.3 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 € 89.6 million (2007: € 144 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 € 30.3 million (2007: € 128.6 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 € 22.8 million in the 2008 financial year (2007: € 131.3 million). The sale of property, plant and equipment realised € 1.0 million (€ 2007: € 1 million) for the Group. In the 2008 financial year, the sale and purchase of financial investments realised a net outgoing payment of € 2.5 million (2007: € 15 million).

Cash Flow from Financing Activities
Cash flow from financing activities includes the dividend of € 65.3 million for the 2008 financial year (2007: € 65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report.

55 ▸ Segment Reporting

The segment reporting prepared by HSBC Trinkaus & Burkhardt in accordance with IFRS 8 for the first time in the financial year 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. The Management Information System (MIS) also serves as one of the Bank's central controlling and monitoring 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 its 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 allocated to the Central Divisions. 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 2008 and 2007 is as follows:

€m		Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Economic Group results	Consolidation/ Reconciliation	Total
Net interest income	2008	13.6	43.6	4.2	10.3	67.8	139.5	0.0	139.5
	2007	14.1	40.1	3.9	3.4	48.5	110.0	0.0	110.0
Net loan impairment and other credit risk provisions	2008	1.3	6.7	0.8	0.3	1.8	10.9	–6.4	4.5
	2007	1.1	5.2	0.5	0.1	0.7	7.6	–11.1	–3.5
Net interest income after net loan impairment and other credit risk provisions	2008	12.3	36.9	3.4	10.0	66.0	128.6	6.4	135.0
	2007	13.0	34.9	3.4	3.3	47.8	102.4	11.1	113.5
Share of profit in associates	2008	0.0	0.0	0.0	0.0	0.5	0.5	0.0	0.5
	2007	0.0	0.0	0.0	0.0	6.4	6.4	0.0	6.4
Net fee income	2008	96.7	91.4	145.5	4.6	9.4	347.6	0.0	347.6
	2007	91.9	82.7	141.2	13.3	–11.0	318.1	0.0	318.1
of which effect from consolidation of ITS	2008	0.0	0.0	0.0	0.0	45.4	45.4	0.0	45.4
	2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net trading income	2008	0.0	0.1	3.5	112.9	–18.3	98.2	0.0	98.2
	2007	0.0	–0.2	–1.9	98.2	4.0	100.1	0.0	100.1
Income after net loan impairment and other credit risk provisions	2008	109.0	128.4	152.4	127.5	57.6	574.9	6.4	581.3
	2007	104.9	117.4	142.7	114.8	47.2	527.0	11.1	538.1
Administrative expenses	2008	67.9	76.7	91.0	55.5	93.1	384.2	0.0	384.2
	2007	62.7	71.3	83.6	50.3	66.1	334.0	0.0	334.0
of which write-downs and amortisation	2008	1.4	1.0	0.9	0.6	13.6	17.5	0.0	17.5
	2007	1.1	0.8	0.6	1.3	7.5	11.3	0.0	11.3
of which effect from consolidation of ITS	2008	0.0	0.0	0.0	0.0	47.5	47.5	0.0	47.5
	2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	2008	0.0	0.0	0.0	0.0	3.5	3.5	0.0	3.5
	2007	0.0	0.0	0.0	0.0	1.3	1.3	0.0	1.3
Operating profit	**2008**	**41.1**	**51.7**	**61.4**	**72.0**	**–32.0**	**194.2**	**6.4**	**200.6**
	2007	**42.2**	**46.1**	**59.1**	**64.5**	**–17.6**	**194.3**	**11.1**	**205.4**
Income from financial assets	2008	0.0	0.0	0.0	0.0	–50.0	–50.0	0.0	–50.0
	2007	0.0	0.0	0.0	0.0	1.9	1.9	0.0	1.9
Results from derivatives held in the banking book	2008	0.0	0.0	0.0	0.0	–11.1	–11.1	0.0	–11.1
	2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other net income	2008	0.0	0.0	0.0	0.0	–1.3	–1.3	0.0	–1.3
	2007	0.0	0.0	0.0	0.0	–0.1	–0.1	0.0	–0.1
Profit before taxes	**2008**	**41.1**	**51.7**	**61.4**	**72.0**	**–94.4**	**131.8**	**6.4**	**138.2**
	2007	**42.2**	**46.1**	**59.1**	**64.5**	**–15.8**	**196.1**	**11.1**	**207.2**
Tax expenses	2008	12.8	16.5	19.6	23.0	–25.3	46.6	2.0	48.6
	2007	15.6	18.6	23.8	11.4	–10.7	58.7	4.5	63.2
Net profit for the year	**2008**	**28.3**	**35.2**	**41.8**	**49.0**	**–69.1**	**85.2**	**4.4**	**89.6**
	2007	**26.6**	**27.5**	**35.3**	**53.1**	**–5.1**	**137.4**	**6.6**	**144.0**
% change on previous year		6.4	28.0	18.4	–7.7	>100.0	–38.0	–33.3	–37.8

Despite the severe crisis affecting financial markets worldwide, all of the Bank's four core segments succeeded in generating high contributions to operating profit. This scenario documents the strategic balance of the Bank's business activities and the strength of its client-based business model, which is supported by client-oriented trading operations. The consequences of the crisis affecting financial markets had a particularly negative effect on the Bank's financial assets managed in the corporate centres.

The contribution to results made by the Corporate Banking business was particularly positive, recording the highest percentage increase. The significant growth in the lending and deposit volume, combined with higher margins in the lending business and the extensive development of the securities, foreign exchange and international business with corporate clients, resulted in a noticeable increase in net interest and fee income over the previous year. Risk provisioning reported corresponds to the standard risk costs as a result of the Bank's loan model. The quality of the loan portfolio remains high.

Of all four segments, the Institutional Clients segment contributed most to the Bank's results; this segment benefited in particular from the very successful fixed income and custodial business. The share of products the Bank procures due to the close cooperation with HSBC Group is rising steadily.

In the Private Banking segment, the increase in revenue in asset management, the property business and in the business with structured interest rate products sufficed almost entirely to absorb the significant drop in earnings in the transaction-led securities business that was brought about by the market-driven cautious stance adopted by many investors and by the increase in costs.

Thanks to an excellent fourth quarter, the Global Markets division succeeded in increasing the extraordinary result it recorded the year before. This success was attributable to earnings on equities and equity derivatives, which remained high, and the improvement in the results of Treasury activities, which more than compensated for the collapse in income from interest rate products.

The significant year-on-year decline in the results in Central Divisions/Consolidation is due essentially to the fall in net trading income as a consequence of spread widening in the central asset/liability management bond portfolio on the one hand and to losses incurred on the Bank's investments. The rise in net fee income and administrative expenses compared with the previous year is accounted for by the costs for the introduction of the flat-rate withholding tax as well as for the purchase of all shares in our securities settlement subsidiary ITS as at 1 January 2008. The full consolidation of all individual revenue and cost items of ITS in the 2008 financial year replaces last year's accounting of the ITS result at equity.

		Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Total	Adjustments	Values as at balance sheet date
Cost:income ratio in %	2008	61.6	56.8	59.4	43.4	0.0	72.9	0.0	72.9
	2007	59.2	58.2	58.4	43.8	0.0	62.1	0.0	62.1
Assets* in €m	2008	786.0	2,616.0	1,196.4	5,576.5	10,847.6	21,022.5	1,183.2	22,205.7
	2007	722.0	2,385.0	1,318.0	4,210.5	11,195.3	19,830.8	1,236.1	21,066.9
Liabilities* in €m	2008	4,002.0	3,406.0	1,642.4	2,328.8	8,624.6	20,003.8	461.0	20,464.8
	2007	3,880.0	3,233.0	1,359.4	1,725.4	8,448.2	18,646.0	668.3	19,314.3
Items for mandatory inclusion* in €m	2008	507.5	2,911.2	609.9	599.8	4,195.2	8,823.6	−235.6	8,588.0
	2007	494.7	3,216.6	616.5	684.4	4,236.8	9,249.0	357.0	9,606.0
Attributable shareholders' equity* in €m	2008	135.6	327.9	143.8	143.0	174.4	924.7	30.3	955.0
	2007	129.6	347.3	139.3	144.8	96.8	857.8	110.9	968.7
Staff	2008	224	211	220	96	1,487	2,238		2,238
	2007**	207	198	204	95	1,124	1,828		1,828
Return on equity before taxes (%)	2008	30.3	15.8	42.7	50.4		15.2		
	2007	32.6	13.3	42.4	44.6		24.1		

* Annual average
** Excluding ITS

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 administrative expenses to the result from ordinary activities before risk provisioning. This ratio has improved in the Corporate Banking segment compared with the previous year and is virtually unchanged in the Global Markets segment. The cost:income ratios of the Private Banking and Institutional Clients segments deteriorated slightly as their costs exceeded 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 rise in loans and advances to customers in the Private Banking segment was accompanied by the expansion of their items for mandatory inclusion, leading to an additional capital requirement. On the other hand, because of the Basel II methodology, the Corporate Clients segment was subject to lower capital adequacy despite the higher volume of business. The items for mandatory inclusion of the Institutional Clients and Global Markets segments fell accordingly.

In line with the development of operating profit, the return on equity in the three segments Global Markets, Corporate Banking and Institutional Clients improved further. The return on equity in the Private Banking segment was lower, but remains high at over 30%.

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
Profit before taxes	2008	110.6	26.2	1.4	138.2
	2007	176.8	26.9	3.5	207.2

Long-term segment assets amounted to € 291.8 million (2007: € 208.6 million) during the year under report, with Germany accounting for € 289.8 million (2007: € 1.4 million) therefore and the Luxembourg region for € 2.0 million (2007: € 1.4 million).

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:

Value in €m	31.12.2008		31.12.2007	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	39.9	39.9	6.5	6.5

€m	31.12.2008		31.12.2007	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,709.1	2,708.5	2,532.7	2,531.8
Customer deposits (from the measurement of long-term promissory note loans borrowed)	11,592.8	11,579.6	10,283.2	10,278.0
Certificated liabilities	10.0	9.8	10.0	9.4
Subordinated capital	458.7	475.4	458.7	447.2
Other financial instruments	50.5	50.5	47.9	47.9

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.

€m	Book value	
	31.12.2008	31.12.2007
Partnerships	26.9	19.1
Holdings in unlisted public limited companies	34.7	37.4
Total	61.6	56.5

During the year under report, partnerships of € 0.1 million were disposed of. The Bank has no intentions at present to dispose of further partnerships or unlisted public limited companies.

The following overview lists items measured at market value on the basis of the method used to calculate the fair value.

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 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

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2007 €m		observed parameters	unobservable parameters		
Trading assets	1,380.3	9,056.3	0.2	0.0	10,436.8
Financial assets	637.2	871.5	3.0	56.5	1,568.2
Trading liabilities	961.2	5,454.1	73.1	0.0	6,488.4

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to € 0.2 million (2007: € 1.5 million). A 25% change in the unobservable parameters would lead to a € 1.5 million (2007: € 0.3 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	2008	2007
As at 1 January	**3.5**	**5.0**
New business	2.1	2.1
Day-1 profit or loss recognised in the income statement	–2.3	–3.6
of which positions closed out	–1.3	–3.6
of which matured transactions	–1.0	0.0
of which observable market parameters	0.0	0.0
As at 31 December	**3.3**	**3.5**

58 ▶ Holdings in Foreign Currency

As at 31 December 2008, assets denominated in a foreign currency were valued at € 2,635.9 million (2007: € 2,554.7 million) and the corresponding liabilities at € 3,666.2 million (2007: € 2,475.4 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 2008	Total 2007
OTC products	FRAs	790	0	0	790	263
	Interest rate swaps	6,785	14,882	9,707	31,374	27,072
	Interest rate options - purchases	2,280	2,264	1,502	6,046	9,178
	Interest rate options - sales	687	2,111	2,364	5,162	8,431
	Forward transactions	0	0	0	0	319
Exchange-listed products	Interest rate futures	1,443	951	0	2,394	3,799
	Interest rate options - purchases	0	0	191	191	66
	Interest rate options - sales	0	0	191	191	0
Interest-based transactions		**11,985**	**20,208**	**13,955**	**46,148**	**49,128**
OTC products*	Foreign exchange forwards	25,263	2,184	4	27,451	24,658
	Cross-currency swaps	243	142	12	397	398
	Foreign exchange options - purchases	2,247	471	21	2,739	2,760
	Foreign exchange options - sales	2,427	254	17	2,698	2,208
Exchange-listed products	Currency futures	0	0	0	0	2
Foreign exchange-based transactions		**30,180**	**3,051**	**54**	**33,285**	**30,026**
OTC products	Equity/index options – purchases	83	130	19	232	607
	Equity/index options – sales	176	119	225	520	189
Exchange-listed products	Equity/index futures	653	0	0	653	1,122
	Equity/index options	5,058	2,051	0	7,109	9,011
Equity/index-based transactions		**5,970**	**2,300**	**244**	**8,514**	**10,929**
Total financial derivatives		48,135	25,559	14,253	87,947	90,083

* 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 2008	Total 2007	Total 2008	Total 2007
OTC products	FRAs	2	0	0	2	0	2	0
	Interest rate swaps	45	270	447	762	433	921	399
	Interest rate options - purchases	24	19	77	120	178	0	0
	Interest rate options – sales	0	0	0	0	0	152	199
	Forward transactions	0	0	0	0	3	0	3
Interest-based transactions		71	289	524	884	614	1,075	601
OTC products*	Foreign exchange transactions	967	97	1	1,064	477	1,075	474
	Cross-currency swaps	9	12	0	21	7	28	9
	Foreign exchange options – purchases	115	30	0	146	148	0	0
	Foreign exchange options – sales	0	0	0	0	0	144	117
Foreign exchange-based transactions		1,091	139	1	1,231	632	1,247	600
OTC products	Equity/ index options – purchases	65	42	1	108	66	0	0
	Equity/index options – sales	0	0	0	0	0	207	60
Equity/index-based transactions		65	42	1	108	66	207	60
Total financial derivatives		1,227	470	526	2,223	1,312	2,529	1,261

* including gold transactions

60 ▸ Contingent Liabilities and Other Obligations

€m	31.12.2008	31.12.2007
Contingent liabilities on guarantees and indemnity agreements	1,747.5	1,617.2
Irrevocable loan commitments	3,489.2	3,704.3
Total	5,236.7	5,321.5

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 € 1.6 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 LiquiditätsKonsortialbank 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 (including rental and lease contracts) amounted to € 61.4 million (2007: € 35.4 million) as at the balance sheet date.

€m	31.12.2008	31.12.2007
Up to 1 year	24.3	18.6
Over 1 year up to 5 years	33.4	13.3
Over 5 years	3.7	3.5
Total commitments arising from leasing and rental contracts	61.4	35.4

61 Assets Pledged as Collateral

Securities with a nominal value of € 1,066.3 million (2007: € 862.6 million) were deposited as collateral for transactions on Eurex and for securities lending operations (cf. Note 31).

Debt instruments with a nominal value of € 4,155.5 million (2007: € 1,767.0 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:

€m	31.12.2008	31.12.2007
Trust assets	**318.8**	**373.1**
Loans and advances to banks	125.7	146.0
Loans and advances to customers	76.6	123.6
Trust equity holdings	116.5	103.5
Trust liabilities	**318.8**	**373.1**
Deposits by banks	2.5	3.4
Customer deposits	316.3	369.7

63 ▸ Participating Interests

HSBC Trinkaus & Burkhardt AG's participating interests can be presented as follows:

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2008 in € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	39,396*
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	85,876	20,130
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	455	1,397
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	18,270	762
HSBC INKA Investment-AG TGV	Düsseldorf	100.0	301	1
International Transaction Services GmbH	Düsseldorf	100.0	13,427	–6,344
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	205*
HSBC Global Asset Management (Deutschland) GmbH**	Düsseldorf	100.0	5,001	13,637*
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,108	549
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	–2*
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	97	47
Companies with special mandates				
HSBC Trinkaus Real Estate GmbH***	Düsseldorf	100.0	167	–956*
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	–165	–175
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	6
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	40	9
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	74	13
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	79	54
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	33	8
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	–1
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	3,000*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,139	2,074
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	8*
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	5	–3

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2008 in € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,645	689
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,923	401
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	1,064	297
Grundstückgesellschaft Kö 2 GmbH	Düsseldorf	100.0	25	– 747*
Other companies				
HSBC Trinkaus Bond Portfolio GmbH	Frankfurt am Main	100.0	50	0
HSBC Trinkaus Consult GmbH****	Düsseldorf	100.0	6,037	1
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	30	1
SINO AG	Düsseldorf	26.6	6,472	3,313

* Net income excluding gains/loss transfer
** Renamed, previously HSBC Investments Deutschland GmbH
*** Renamed, previously HSBC Trinkaus & Burkhardt Immobilien GmbH
**** Figures as at 31.12.2007

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 and will not publish their financial statements for 2008:

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- DPT Deutscher Pension Trust GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- Grundstückgesellschaft Kö 2 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	2008	2007*
Staff employed abroad	180	138
Staff employed in Germany	2,013	1,599
Total (including trainees)	**2,193**	**1,737**
of which:		
female members of staff	981	762
male members of staff	1,212	975

* excluding ITS. ITS' figures for 2007 are as follows: 261 in total, of which staff employed abroad 0, staff employed in Germany 261, female members of staff 124, male members of staff 137.

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:

€m	2008	2007
Audits	0.9	0.8
Other audit or valuation services	0.2	0.2
Tax advisory services	0.0	0.0
Other services	0.2	0.2
Total	1.3	1.2

68 Business Relationships with Companies and Persons defined as Related Parties

In accordance with our "best of both worlds" strategy, we continued to expand our 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 € 297.3 million (2007: € 265.3 million) in income and € 54.3 million (2007: € 37.7 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. Income includes interest income of € 233.6 million (2007: € 207.2 million).

Loans and advances to banks and customers include the following amounts:

	Affiliated companies		Associated companies	
€m	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Loans and advances to banks	2,049.6	2,442.7	0.0	0.0
Loans and advances to customers	0.5	0.0	30.6	125.5
Total	2,050.1	2,442.7	30.6	125.5

Deposits by banks and customer deposits include the following transactions concluded with affiliated enterprises:

	Affiliated companies		Associated companies	
€m	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Deposits by banks	1,638.3	857.4	0.0	0.0
Customer deposits	2.1	1.8	10.6	30.3
Total	1,640.4	859.2	10.6	30.3

Trading assets/liabilities include the following transactions concluded with affiliated enterprises:

	Securities		Derivatives	
€m	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Trading assets	2,203.7	4,253.1	1,204.7	792.6
Trading liabilities	0.0	0.0	1,213.1	417.4

Compensation of the Executive Bodies
The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Organisation 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 Paragraph 1 (6a), Sentence 5 to 9 of the German Commercial Code (Handelsgesetzbuch – HGB).

At € 2,157.3 thousand, the fixed compensation of all members of the Management Board was almost unchanged compared with 2007 (€ 2,112.5 thousand). The variable share of the remuneration fell less than proportionately to the decline in the operating result (net profit for the year before taxes) to € 5,572.0 thousand (2007: € 8,466.8 thousand). In addition, the Management Board will receive considerably fewer share options as a so-called long-term incentive, in accordance with a disbursement structure specified in more detail below. This element of remuneration equates to a fair value of € 4,228.0 thousand for 2008 (2007: € 7,308.2 thousand).

Other compensation in the amount of € 85.7 thousand (2007: € 96.6 thousand) comprises mainly remuneration paid for the assumption of Supervisory Board offices within the Group, use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

As in 2007, the performance-related components for 2008 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 will be paid in three equal amounts in the next three financial years, from 2009 through 2011, in each case after the announcement of the HSBC Group's result for the year; subject to continued service for the Bank. This provision has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. The previous figures for the share-based compensation were adjusted on account of the changes in the final GAS 17.

In connection with the change in the Bank's legal status in 2006, the Managing Partners at that point in time were granted a one-off overall amount of € 3.0 million in shares in HSBC Holdings plc as an incentive to remain in the Management Board of the stock corporation (AG). The payment is made in three equal instalments at the end of each year from 2006 through 2008, subject to their continued service for the Bank.

Provisions totalling € 9.8 million (2007: € 10.2 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 9 June 2009, the compensation of the Supervisory Board will be € 1,160,250.00 (2007: € 1,180,463.69). The members of the Advisory Board received remuneration totalling € 331,300.00 (2007: € 323,100.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 396,991.38 (2007: € 193,203.88). 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 € 4.5 million (2007 € 4.5 million). Provisions totalling € 41.5 million (2007: € 44.1 million) have been created to cover pension obligations for former Managing Partners 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 at the 2008 reporting date, loans and advances in the amount of € 44,487.66 were granted to members of the Management Board at a rate of 6.0% p.a. Like in the previous year, there were no loans and advances to members of the Supervisory 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 31.12.2008	Number of option rights 31.12.2007
SAYE 2003 (5Y)	01.08.2003	2.89	7.68	–	64,804
SAYE 2004 (5Y)	01.08.2004	3.21	9.75	25,358	26,645
SAYE 2005 (3Y/5Y)	01.08.2005	2.95/3.00	9.66	50,400	148,522
SAYE 2006 (3Y/5Y)	01.08.2006	2.60/2.67	11.01	52,573	74,929
SAYE 2007 (1Y/3J/5Y)	01.08.2007	2.82/2.90/2.99	10.42	80,821	174,097
SAYE 2008 (1Y/3J/5Y)	01.08.2008	2.49/2.66/2.77	8.67	281,944	–
Aggregate				491,096	488,997

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 2008 was € 10.62 (1 August 2007: € 12.30).

Development of the Share Option Scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2008	SAYE 2003-2007	488,997	9.88
Granted in the course of the year	SAYE 2008	281,944	8.67
Exercised in the course of the year	SAYE 2003 (5Y)/ SAYE 2005 (3Y)/ SAYE 2007 (1Y)	201,097	9.32
Forfeited in the course of the year	SAYE 2004-2008	78,748	10.58
Balance as at 31.12.2008	SAYE 2004-2008	491,096	9.37
of which outstanding option rights		474,259	–
of which exercisable option rights		16,837	–

The staff expenses to be taken into account in the year under report are € 0.5 million (2007: € 0.5 million).

Breakdown of the Share-Participation Scheme

Like 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:

€m	Performance-related remuneration in HSBC shares	
	For the 2008 financial year	For the 2007 financial year
Maturing in March 2009	0.0	4.6
Maturing in March 2010	0.0	4.6
Maturing in March 2011	0.0	4.7
Maturing in March 2012	10.7	0.0
Total	**10.7**	**13.9**

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 4.7 million (2007: € 4.0 million). The corresponding liability for share-based payments amounts to € 7.3 million (2007: € 0.0 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 2008, 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
Deputy Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt am Main

Paul Hagen	
Position	Company
Chairman of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Supervisory Board	Falke-Bank AG i. L., Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
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, Luxembourg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

Carola Gräfin v. Schmettow	
Position	Company
Chairman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Chairman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg

72 Offices held by Other Members of Staff

As at 31 December 2008, 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 (RR) Ltd., Moskau, Russia
Member of the Supervisory Board	HSBC Bank Polska S.A., Warschau, Poland

Dr. Michael Böhm	
Position	Company
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Silke Büdinger	
Position	Company
Member of the Board of Directors	Luxemburger Kapitalanlagegesellschaft SA, Wasserbillig, Luxembourg

Robert Demohn	
Position	Company
Member of the Supervisory Board	International Transaction Services GmbH, Düsseldorf

Bernd Franke	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Gerd Goetz	
Position	Gesellschaft
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	International Transaction Services GmbH, Düsseldorf

Marc Landvatter	
Position	Company
Deputy Chairman of the Supervisory Board	Algopool InvAG, Köln

Dr. Christiane Lindenschmidt	
Position	Company
Member of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, 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 SA, Luxembourg

Heiko Schröder	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Ulrich W. Schwittay	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf

Norbert Stabenow	
Position	Company
Member 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	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

Dr. Siegfried Jaschinski	
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	Heidelberger Druckmaschinen AG, Heidelberg
Member of the Supervisory Board	Deutscher Sparkassenverlag GmbH, Stuttgart
Chairman of the Board of Governors	Vereinigung der Baden-Württembergischen Wertpapierbörse e. V., Stuttgart
Member of the Board of Directors	Bundesanstalt für Finanzdienstleistungsaufsicht, Bonn
Member of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main
Member of the Board of Directors	KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main

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

74 ▸ Publication

The Annual Report will be released for publication on 2 April 2009. The release for publication was approved by the Management Board in its meeting on 10 March 2009.

Düsseldorf, 9 February 2009

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 income statement and the statements 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 2008. 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 Paragraph 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 German Commercial Code (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 business activities and the economic and legal environment of the Group 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 our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

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 Paragraph 1 German Commercial Code (HGB) as well as IFRS overall 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, 16 February 2009

KPMG AG Wirtschaftsprüfungsgesellschaft
(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)

Signed by Becker
Auditor

Signed by Kügler
Auditor

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2008	2007	2006	2005*	2004
Total assets	**22,205.7**	**21,066.9**	**18,676.4**	**15,948.1**	**13,323.1**
Assets					
Cash reserve	139.5	332.3	436.3	798.6	157.9
Loans and advances to banks	2,979.7	4,117.0	4,440.1	4,561.9	2,531.0
Loans and advances to customers	4,082.6	4,272.9	3,173.1	2,554.0	2,636.7
Net loan impairment and other credit risk provisions	–21.4	–16.2	–17.0	–26.1	–52.3
Trading assets	12,482.6	10,436.8	9,044.0	6,470.6	6,215.6
Financial assets	2,118.8	1,568.2	1,437.6	1,472.2	1,678.2
Interests in associates	10.1	15.2	1.5	0.0	0.0
Property, plant and equipment	81.1	196.3	80.4	78.0	74.9
Intangible assets	56.0	12.3	9.3	7.9	35.4
Taxation recoverable	17.5	54.8	2.5	1.8	0.0
current	13.0	54.8	2.5	1.4	0.0
deferred	4.5	0.0	0.0	0.4	0.0
Other assets	259.2	77.3	68.6	29.2	45.7
Liabilities					
Deposits by banks	2,709.1	2,532.7	1,495.7	1,424.7	913.6
Customer accounts	11,592.8	10,283.2	8,861.4	7,139.6	5,927.1
Certificated liabilities	10.0	10.0	29.8	34.6	16.9
Trading liabilities	6,152.9	6,488.4	6,683.6	5,883.9	4,956.4
Provisions	117.4	112.4	113.0	103.5	220.5
Taxation**	85.1	106.0	62.0	128.1	146.5
current**	81.5	48.4	25.7	80.7	76.2
deferred	3.6	57.6	36.3	47.4	70.3
Other liabilities	108.2	106.8	105.4	91.0	81.4
Subordinated capital	458.7	458.7	440.6	308.1	273.2
Shareholders' equity**	955.0	968.7	884.9	834.6	787.5
Minority interests	16.5	0.0	0.0	0.0	0.0
Income statement					
Net interest income	139.5	110.0	88.6	73.7	69.3
Net loan impairment and other credit risk provisions	4.5	–3.5	–5.2	–9.7	1.6
Share of profit in associates	0.5	6.4	2.5	0.9	0.0
Net fee income	347.6	318.1	281.8	264.4	226.4
Net trading income in the operative client business	98.2	100.1	104.0	74.3	54.4
Administrative expenses**	384.2	334.0	298.6	287.6	249.3
Net other operating income and expenses	3.5	1.3	–1.0	0.8	3.8
Operating profit	200.6	205.4	182.5	136.2	103.0
Income from financial assets	–50.0	1.9	6.5	49.1	21.8
Income from derivatives held to maturity	–11.1	0.0	0.0	0.0	0.0
Net other non-operating income and expenses	–1.3	–0.1	0.5	8.2	–2.6
Profit before taxes	138.2	207.2	189.5	193.5	122.2
Tax expenses**	48.6	63.2	74.9	76.1	43.8
Net profit for the period	89.6	144.0	114.6	117.4	78.4

* 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 C

Annual Report 2007 (consolidated financial statements)

The Annual Report 2007 (consolidated financial statements) are reproduced on the following pages and separately paginated (106 pages, from page C-2 through page C-107).

Annual Report 2007
HSBC Trinkaus & Burkhardt

Date of issue: April 2008

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Group Management Report
Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 16 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) SA Luxembourg	HSBC Trinkaus Real Estate GmbH** Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers SA Luxembourg	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf	Joachim Hecker Grundbesitz KG Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxembourg KG Düsseldorf
HSBC Investments Deutschland GmbH Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Private Wealth GmbH Düsseldorf	
International Transaction Services GmbH* Düsseldorf	DPT Deutscher Pension Trust GmbH Düsseldorf	

* accounted for at equity
** renamed, previously HSBC Trinkaus & Burkhardt Immobilien GmbH

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Eight 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 by the relevant Supervisory Board, Board of Directors and Advisory Board. Notwithstanding the legal independent status of the subsidiaries, 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 members.

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 form.

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 39 in respect of the Management Board's current authorisation to issue shares.

In accordance with the resolution passed by the Annual General Meeting on 5 June 2007, the Management Board has the right to buy and sell its own shares for the purpose of securities trading 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 exceed 5% of the company's share capital at the end of each day. This authorisation is valid until 30 November 2008.

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 members of the Management Board or employees 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 the Management Board to the personnel committee of the Supervisory Board. The members of the personnel committee of the Supervisory Board in the 2007 financial year were Dr Sieghardt Rometsch (Chairman), Stephen Green (up to 5 June 2007), Harold Hörauf (from 12 September 2007) and Stuart Gulliver. The personnel committee met four times in the 2007 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and performance-related components as well as individually guaranteed pension payments. The fixed amounts are paid in 12 equal monthly instalments and examined annually by the personnel committee. There is no obligation to adjust the fixed compensation. The performance-related components are defined by the personnel committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as a combination of both. The cash component amounts to at least 50% of the variable compensation. The share-based compensation will be paid out in three equal instalments over the next three financial years, in each case after the announcement of the net profit for the year of the HSBC Group. The payout is subject to continued service for the Bank at the expected time of payment. No share options are granted to the members of the Management Board of the Bank.

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2007 financial year can be found in Note 65 "Business Relationships with Companies and Persons Defined as Related Parties".

The compensation structure for members of the Supervisory Board is governed in the Articles of Association of HSBC Trinkaus & Burkhardt AG. In addition to the reimbursement of their expenses and the value-added tax accruing on Supervisory Board activities, 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 compensation. The Chairman of a Supervisory Board committee receives double and members of a sub-committee one-and-a-half times the amounts stated, provided the respective committee has met at least once in the financial year. 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 2007 financial year is reported under Note 65 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 supported by Mr Florian Fautz, Mr Trevor Gander 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
Corporate Communications
Audit
Data Protection

Central Functions B

Paul Hagen
Member of the Management Board
Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Member of the Management Board
Private Banking

Division II

Andreas Schmitz
Member of the Management Board
Corporate Banking
International Business
Investment Banking

Florian Fautz
Member of the Executive Committee
Investment Banking

Manfred Krause
Member of the Executive Committee
Corporate Banking
International Business

Division III

Carola Gräfin v. Schmettow
Member of the Management Board
Institutional Clients
Asset Management

Division IV

Carola Gräfin v. Schmettow
Member of the Management Board
Global Markets

Division V

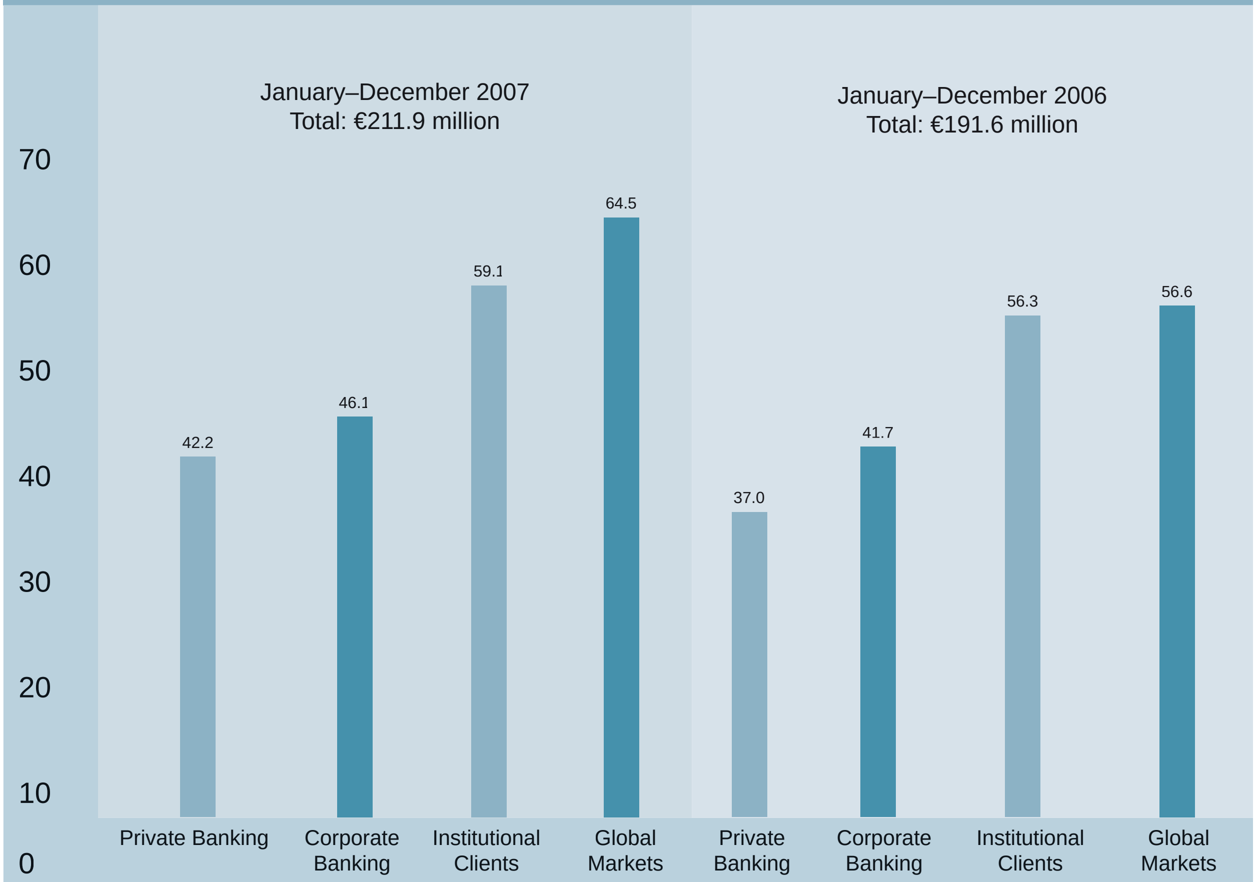
Paul Hagen
Member of the Management Board
Operations
Business Process Development
Information Technology
Credit

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



After deduction of the €5.9 million net costs incurred by head office functions during 2007, as against €9.1 million for 2006, the 2007 operating profit was €206.0 million (2006: €182.5 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions

Private Banking 20.80%

Corporate Banking 24.77%

Institutional Clients 28.44%

Global Markets 25.99%

Strategic Direction

The German banking sector was characterised by an increase in the earnings power of the market participants from 2004 to 2006, although increases in trading profits and a reduction in value adjustments were more responsible for this than real improvements in the operative client business. However, the signs have turned as a result of the subprime crisis, the aftermath of which has hit in particular institutions operating without a viable business model.

A possible slowdown in economic activity as a result of the American economy losing momentum, perhaps even going into recession, could mean an increase in loan impairment provisioning requirements again. This will affect international market participants as well, though, whose business policy has been focused so far largely on structured financial solutions such as leveraged finance or structured products. These institutions will have to find their bearings again on the German market.

However, it appears to be too soon to deduce from this that we have seen the start of the long-awaited consolidation process in the German banking market. In the public sector in particular, banks are still tending to put off making structural changes and avoiding necessary corrections by obtaining fresh government financing or additional state guarantees.

In the current situation, which may well get even worse for some of our competitors, HSBC Trinkaus & Burkhardt's virtues stand out all the more: consistent strategy and personnel together with proven relationship management geared exclusively to the client.

We will continue to offer our clients the "best of both worlds": the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. It is essential that we make this unique combination in the German banking landscape even more visible for both our existing and future clients in the more difficult years which lie ahead for us and for the German banking market.

We offer our clients not only the full range of traditional banking services, but also focus on sophisticated financial services as solutions to complex problems, on both the national and international level. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. In the area of complex financial derivatives and in the M&A business, we systematically develop meaningful and usable innovations and solutions for our clients. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

Our strategy is characterised by continuity and is based on the following five key considerations:

- We concentrate on the target groups of high net worth private clients, corporate clients and institutional clients and we aim to become a core banking partner for all our clients.
- We continuously analyse our activities as to whether they are geared towards optimally meeting the national and international needs of our existing and future clients. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing our clients.
- Financial innovation is our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. Nevertheless, it also appears necessary at the same time to emphasise our careful, flexible and service-oriented execution of standard transactions.
- We are constantly expanding our range of securities settlement services for our clients and for other financial institutions. We offer highly qualified services at competitive prices via our subsidiaries International Transaction Services GmbH (ITS) for securities settlement and Internationale Kapitalanlagegesellschaft mbH (INKA) for fund administration, each of which has significant market shares. Added to this is the Bank's Global Custody offer.
- We draw on the resources of one of the largest banking groups in the world, the HSBC Group. This applies to both technical product efficiency and the respective regional network.

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

- We must systematically open up the global network, the regional links and the local know-how of the HSBC Group for our clients without having to make compromises in terms of their requirement of an individualised private bank servicing concept.
- We must find and develop useful solutions in the spectrum of ever more complex financial services on the basis of a long-term client relationship which is based on trust.
- We must ensure that we have a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value added chain, and we must offer our services at a competitive price and in a client-friendly manner.
- We must invest in the qualification of our employees through targeted and advanced training measures on the international level.
- 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.

We firmly believe that this strategy offers a broad base for ensuring our long-term future business success, even in the German financial marketplace which is undergoing major changes.

The 2007 Financial Year

The economic environment

The global economy expanded for the fifth year in succession in 2007, benefiting in particular from strong growth in Asia. In this environment the German economy was easily able to digest the increase in VAT at the beginning of 2007 as dampened consumer spending was cushioned by an investment and export boom. Germany went on to post solid growth of 2.6%. As a result of this strong growth, the process of recovery on the German labour market continued with the seasonally adjusted unemployment rate falling to 8.1%, the lowest level since the end of 1992. The growth Germany recorded in 2007 put it on the level of the European average enabling it to leave the USA behind as regards economic growth. 2007 was also characterised by a strong increase in inflation: with energy and food prices rising, inflation rose temporarily to over 3% at the end of the year.

In the first half of 2007 the ECB raised interest rates twice by 25 bp in each case from 3.5% to 4.0%. While the US central bank eased monetary policy several times at the end of the year as a result of the crisis on the international capital markets, the ECB left interest rates unchanged in the second half of the year. In concerted action with the US central bank, the Bank of England and the Swiss central bank, the ECB made additional liquidity available in order to ease the pressure on the money markets.

While the broad European and US stock market indices closed 2007 with meagre gains, the DAX30 was up by a good 22% and reached a new record high of 8,152 points in July. Capital market activity in the Eurozone was characterised by an increase in yields in the first half of the year, with yields on 10-year government bonds peaking at 4.7%. This trend was reversed in the second half of the year on account of the US central bank changing direction and the long-term yield fell back to 4.3% by the end of the year. In this environment the euro was able to advance across the board and notched up significant gains, in particular versus the US dollar. The single European currency rose from $1.32 at the beginning of 2007 in the direction of $1.46 at the end of the year.

Profitability

Despite the financial market crisis, we clearly reached our goals in the 2007 financial year. We increased operating profit–the most important financial performance indicator–by 12.9% to a new record level of €206.0 million. We were equally successful in further increasing the number of our client relationships. Our results were improved once again in all business divisions. As was already the case the previous year, we gave a particularly good performance in the first half of the year. Due to the growing uncertainty among our customers in reaction to the subprime crisis, our earnings growth slowed down slightly in the second half of the year. However, we are more than satisfied with our performance in the second half of 2007 as well with an increase in operating profit of 10.1% compared to the second half of 2006. Overall, the subprime crisis has put no notable direct burden on our Bank as we have consciously avoided investments in these products. However, we cannot rule out indirect repercussions as a result of changes in the markets and in client demand.

By clearly focusing our strategic orientation on selected client groups we continued along a profitable growth path in 2007, despite notable investments in employees and systems.

The success of the 2007 financial year is based essentially on three main factors:
- Consistent implementation of our strategy
- Moderate willingness to assume risk combined with sophisticated risk management
- Intensive cooperation with HSBC

As a result of the implementation of our strategy, we were able to acquire new target client relationships in all client segments as well as intensify existing client relationships. We achieved more than proportionate growth compared to the market.

Although taking on risks is one of the core functions of a bank, these risks have to be properly assessed and monitored and actively controlled. Apart from our trading activities, we enter into counterparty risk only in connection with our own client business. We pay strict attention to the profitability of each client relationship and have always refrained from taking on synthetic credit risks.

The close cooperation with HSBC enables us to combine the “best of both worlds”: the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. This partnership-based cooperation extends to very many fields of business with differing intensity, in each case corresponding to our clients’ needs.

The individual items of the income statement developed as follows:

Net interest income was up 24.2% to €110.0 million. This favourable trend is based essentially on our success in the client business, but interest income from financial assets was also up again by 6.2% versus the high prior-year level. By acquiring new clients as well as intensifying existing client relationships, we were able to significantly increase average volumes on both the lending and deposits side. Thanks to our extremely good liquidity situation we expanded the interest margin in the deposit business leading to a significant increase in net interest income in this segment. However, there was only a slight improvement in earnings in the lending business as the stiff competition for our target clients led to slightly lower credit margins. Despite the continuation of the financial market crisis, no improvement in the margins in the client lending business can be observed so far. We have been able to invest our free cash flow far more profitably on the interbank market, including the HSBC Group, as the credit and liquidity spreads have widened substantially in the wake of the financial market crisis.

The good quality of our credit portfolio again led to the reversal of loan impairment provisions on balance. Overall, net interest income after loan impairment provisions was up 21.0% to €113.5 million.

There was a 12.9% increase in net fee income to €318.1 million. Fee income was up 19.3% to €620.7 million, while fee expenses increased by 26.8% to €302.6 million. The more than proportionate increase in fee expenses is, above all, the result of the strong expansion in transaction volume which led to a sharp increase in third-party fees and securities settlement costs which could not be passed on in full. It is to be pointed out that fees in the securities business increased significantly by €21.6 million or 11.9% to €203.7 million despite the uncertainties on the financial markets since the middle of the year. On the one hand, we benefited from higher transaction volumes reflecting not least the steady growth in the number of our clients and the intensification of existing client relationships. On the other, this success can also be attributed to the trust which our clients place in our consulting expertise in particular in this difficult market situation. We managed to step up our cooperation with HSBC substantially in the year under report in particular in the securities business. For example, we took on the role of custodian for Germany in the HSBC Group last year. There was also a strong improvement in our issuing and structuring business. Net income here was up once again by €7.5 million or 61.0% to €19.8 million. This success is based on the successful placement of a structured participation rights issue (H.E.A.T III) in the first quarter. We were able to more than double earnings in the corporate finance business, thanks to the successful structuring and placement of capital increases. As sole lead manager in the capital increases carried out by ersol Solar Energy AG and Nordex AG, the Bank provided evidence of its capital market and sector expertise in the renewable energy segment. This was set against a reduction in earnings in the real estate business. HSBC Trinkaus & Burkhardt placed no real estate funds in the year under report, due primarily to the enormous purchase price increases with correspondingly lower returns for properties in connection with the internationalisation of the real estate markets. A property was acquired in Brisbane, Australia just before the end of the year which is to be marketed as a fund.

Down by 3.8% to €100.1 million, net trading income fell only just short of the previous year's high. We again enjoyed particular success in marketing retail products under our HSBC Trinkaus Retail Derivatives brand (www.hsbc-zertifikate.de). With the issue of more than 20,000 certificates and warrants we reached a new high in 2007. This guarantees that we will always be able to present offers which are perfect for the respective market environment in fast-moving times as well. It is to be pointed out here that in particular we were able to quote tradable prices for all of our issues at all times, even given the major market turmoil. Furthermore, we benefited from the favourable sentiment on the European bond and equity markets in the first half of the year as well as from the major volatility on these markets in the second half. The apportionment of net trading income to the individual types of product shows that we still focus on the equities and equities/index derivatives business, while in interest rate products and derivatives trading we rely very strongly on the global trading books of the HSBC Group. At €79.0 million net trading income from equities and equity derivatives fell only just short of the good prior-year figure of €80.1 million. There was also a slight decline in our interest rate products trading activities to €10.9 million. Thanks to its good liquidity position the Bank was able to benefit from the wider credit and liquidity spreads, but investor uncertainty as a result of the subprime crisis led to declining net trading income from interest rate products in the second half of the year. In our foreign exchange trading activities we were almost able to repeat our prior-year performance in the year under report.

Overall, administrative expenses increased by 11.7% to €333.4 million. The growth in staff expenses of €13.6 million or 7.2% to €203.3 million is the result on the one hand of the further increase in our staff as we continue along our strategic growth path. On the other, we honoured the record result in 2007, thanks to the profitable implementation of our growth course, with higher performance-related remuneration for our staff. The decline in expenses for post-employment benefits reflects the increase in income from plan assets in our CTA. Other administrative expenses increased by €20.2 million or 20.5% to €118.8 million. The increase is essentially the result of higher fees for IT advisory services for the further modernisation of our IT infrastructure as well as statutory provisions. With MiFID having been implemented on time and the preparations for converting to the Basel II provisions having been completed successfully in the year under report–along with the SEPA project–the preparations for the implementation of the withholding tax got under way towards the end of the year. These projects involve expenses going into millions. The further modernisation of the IT infrastructure is in line with our strategic growth plan. Alongside the fees for advisory services, additional group expenses as a result of our stronger cooperation with the HSBC Group also led to an increase in administrative expenses.

Net income from financial assets declined, but is clearly positive as the Bank did not have to digest any notable burdens resulting from the subprime crisis. We have always avoided taking on synthetic credit risks, and entered into minor ABS positions only in order to support selected client transactions.

This led to a slightly smaller increase in profit before taxes than operating profit, namely of 9.7% to €207.8 million.

The substantial reduction in future domestic tax rates as a result of the corporate tax reform which came into force on 1 January 2008 is to be counterfinanced by widening the assessment basis. The lower tax rates led in particular to lower deferred tax at the Bank as a result of which overall tax expenditure was down by 15.4% or €11.5 million in 2007. Net profit for the year therefore rose more than proportionately by 26.0% to €144.4 million.

The asset situation

In 2007 the balance sheet total again grew substantially by 12.8% to €21.1 billion. On the assets side, there was a significant rise compared to the previous year, in particular in loans and advances to clients of 34.7% to €4.3 billion as well as in trading assets of 15.4% to €10.4 billion. On the other hand, there was a 23.8% reduction in balances with the Deutsche Bundesbank to €0.3 billion, which was balance-sheet-related, as well as in loans and advances to banks of 7.3% to €4.1 billion. On the liabilities side, compared to the previous year deposits by banks were up 16.0% to €10.3 billion and customer accounts by 69.3% to €2.5 billion, while trading liabilities were down by 2.9% to €6.5 billion.

The growing number of client relationships is associated with the expansion of our lending portfolio, in particular in the corporate banking business. This is evident above all from the growth in loans and advances to clients. On the other hand, the decline in loans and advances to banks and the increase in trading assets is due above all to overnight money being exchanged for short-term certificates of deposit in order to make better use of the excellent liquidity position and also to balance-sheet-date-related effects. One reason for the excellent liquidity situation is very high levels of client deposits which reflect the significant inflows of funds in the business with high net worth private clients and in the fund business. A second reason for the liquidity situation is the fact that, for some years now, our various trading departments have made a significant contribution to Group liquidity through the ever-growing number and diversity of structured issues. The increase in deposits by banks is mainly balance-sheet-related.

While our trading portfolios of equities and other variable-income securities declined significantly, there was a substantial increase in fixed-income securities in the trading portfolio, in particular certificates of deposit. The market values of derivatives declined slightly in both trading assets and liabilities owing to the trend in interest rates, although we further expanded the derivatives business in cooperation with HSBC.

The financial position

As of the balance sheet date, the Group’s equity ratio and Tier 1 capital ratio according to the German Banking Act (Kreditwesengesetz–KWG) was 10.7% and 6.4%, respectively. This means that the Bank’s capital resources still exceed the minimum regulatory requirements by far.

There was a significant increase in risk assets and a moderate increase in the market risk positions according to the German Banking Act in 2007, while regulatory capital in the Group remained almost unchanged at €1.0 billion. The increase in risks assets is based primarily on the growth in loans and advances to clients. For the purpose of calculating regulatory capital, profit retention and the derecognition of participatory capital owing to it falling below the two-year residual term limit cancelled each other out.

We made no substantial adjustments to financial assets in 2007. At €76.2 million the revaluation reserve for financial instruments was down slightly compared to €88.6 million the previous year, due above all to the higher level of interest rates.

Liquidity at the Bank also remains good. Regulatory requirements were exceeded significantly throughout the year, with the key liquidity ratio in accordance with Principle II of the German Banking Act (Grundsatz II) at an average of 1.58 for the end-of-month positions.

Outlook for 2008

There were growing signs over the course of 2007 that the global upswing will lose momentum in 2008. The slowdown which is emerging was prompted by the real estate boom in the US coming to an end and the resulting global banking and financial market crisis, which is also likely to dominate much of 2008. In this environment, there is a threat of a notable slowdown in growth in the USA which the US central bank is trying to counter by sharply reducing interest rates.

The German economy will not be able to escape this downtrend, either. Not only are its most important trading partners experiencing weaker growth, German companies and consumers are also likely to be hit by the financial market crisis via a restrictive lending policy on the part of the banking system. We are only expecting growth of around 1.5% in Germany and the Eurozone in 2008. The labour market as well as an increase in real wages should have a supportive effect on German growth. The ECB is likely to pay tribute to the worsening growth prospects towards the middle of the year and introduce a cycle of interest rate cuts. By the beginning of 2009 we are expecting a reduction of the repo rate from its current level of 4.0% in at least two steps. A significant increase in yields at the long end of the yield curve need not be anticipated in this environment.

The situation on the German banking market has seldom been so difficult. It has only been possible for several institutions to save themselves from insolvency by seeking external assistance amounting to billions. The capacity of other individual institutions to carry risk has been reduced by wrongly assessing the risk content of positions they entered into. In this challenging environment, we plan to use our clear client focus and strong balance sheet to gain further market shares. We should succeed in this as we are able to concentrate on the business with our clients, and valuable resources are not tied up by internal restructuring measures.

The starting base is very high given the successes achieved in the 2007 financial year in which we clearly met our forecast despite the start of the subprime crisis in the summer. This applies all the more as we have been able to generate clearly double-digit growth rates in our operating profit in each of the past five years and therefore have a record result as a basis of comparison. We believe there will be a substantial reduction in the volume of revenues generated by the banks in Germany in 2008. The question as to whether the targeted market share gains will be sufficient to maintain the revenue base at the prior-year level remains open at present. This is the condition to succeed in balancing out the increase in administrative expenses and maintaining operating profit more or less at the prior-year level.

It is a precondition that there are no further major share price losses on the stock markets so that there is no major slump in transaction volumes compared to the previous year. The credit risk costs, which made a positive contribution to the operating profit on a portfolio basis from 2005 to 2007 as a result of the release of loan impairment provisions for individual large commitments, should be in the single-digit million range. We are not yet expecting any significant deterioration in borrower creditworthiness for the portfolio as a whole, but fear a reduction in credit quality in individual cases.

Administrative expenses will continue to rise. There is accumulated demand on account of significantly higher transaction volumes and the positions which have been planned for this, but not yet filled. We will continue to strengthen our investment banking activities as a strategic project and not allow ourselves to be put off by the current market distortions. As a result of the acquisition of 100% of ITS International Transaction Service GmbH, which provides securities settlement services for HSBC Trinkaus & Burkhardt and other banks, both the fee income and administrative expenses of this company will be entered under the corresponding income statement items and lead to a notable increase in these items as a result of the transition from at-equity to full consolidation; the cost:income ratio will be increased by just less than 2% as a result. We will not be able to escape the significant increase in costs as a result of administrative and regulatory provisions. We regard a cost:income ratio ranging from 65% to 70% in terms of operating profit as adequate for our business model of a universal bank with a wide range of products for our clients. The favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. We would regard an operating profit and profit before taxes at the level of 2007 as a clear success for our Bank, with its deliberately strong capital market and service orientation, also in comparison with other banks.

We are expecting the successful performance seen in all client segments in recent years to continue. The volume of assets managed in our Private Banking business has increased significantly as a result of the inflows of funds in previous years and the good performance forming a solid base for the further expansion of the business. We will continue to broaden our product offer, but will also require additional qualified staff in order to generate further solid growth. The performance of important asset categories will presumably require the greater use of structured products in 2008 in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. It is also essential that we adjust as best as possible to the new tax provisions. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident that we can expand our market position and generate an earnings contribution comparable to the previous year. We are open to acquisitions in this client segment.

HSBC Trinkaus & Burkhardt's 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. We aim to use the trust gained to broaden our service offer. Offering additional services is unavoidable as the credit margins of counterparties with an immaculate credit standing have declined dramatically on account of the major competitive pressure. As a result, it is no longer possible to adequately cover the possible default risk or generate reasonable returns on equity from the credit margins. This statement applies not only to the syndicated loan business with internationally operating groups, but also increasingly to the upper Mittelstand segment. The banking crisis has not yet led to the notable widening of credit margins. We fail to understand why other banks offer interest rates which are below the refinancing costs of these institutions on the capital market, in particular for client loans with mid-range and long maturities. This conduct illustrates the distortions which still exist in the German banking system. Following the significant expansion of our credit portfolio in recent years, we will extend our credit volumes only on a selected and earnings-oriented basis overall. The earnings contribution in the corporate banking business can therefore only be increased by our clients using additional banking services. A pure debtor-creditor relationship still does not offer an adequate basis for a lasting business relationship.

Our expectations for this year are also cautious as regards our business with institutional clients. It remains to be seen whether the expected decline in sales of structured credit products can be compensated by other products. Individual solutions and products which are tailor-made to the requirements of the institutional clients and which illustrate the targeted risk-return profile are mandatory requirements for standing out as a trusted advisor for the clients.
Thanks to our cautious approach to high-risk structures and the transparency of the risk profiles, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available for this; we have direct access to its global trading books which also enable large-volume transactions and the assumption of risk, and can thus offer added value.

We see further growth in demand for our asset management services. Our subsidiary HSBC Investments Deutschland GmbH has benefited and will continue to benefit from the greater use by institutional clients of mutual funds geared especially to their requirements. The successful global product cooperation with HSBC in the field of global asset management services will lead to the significant broadening of the product range, above all also for investments in countries which stand out through particularly dynamic growth. However, investors already started to partly realise the major price gains from the emerging market funds in the final quarter of 2007, as a result of which placed volumes have declined. In keeping with this the Bank’s fee income has also been reduced.

The success of our subsidiary INKA Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for fund administration will continue. A volume of more than €55 billion in fund administration creates economies of scale in the competition. A new fund accounting system will be introduced this year, which ties up major resources, enabling the acquisition of new large mandates to be stepped up.

In addition, we will further improve our performance as a global custodian through integrated cooperation with HSBC Securities Services. The success with acquisitions in 2006 and 2007 makes us optimistic for all three services–portfolio management, the master capital investment company offer, and global custody. We are also ready to make acquisitions in all three lines of business.

Our continuing success with the HSBC Trinkaus Investment Products sales initiative is expected to further improve our market position with respect to sales of certificates, warrants and mutual funds. However, as the slump in prices on the stock markets at the beginning of 2008 has led to a reduction in private investors’ risk capital, an increase in volumes and therefore also revenues is questionable, despite active product marketing. We will strengthen the technical platform and make our Internet presence even more attractive for our clients.

As a result of the reorganisation of our trading activities in the wake of the integration into the HSBC Group, the interest rate product and foreign exchange trading books are geared exclusively to supporting our client activities. We benefit here from the liquidity and risk-bearing capacity of HSBC's trading books. Equity trading and the equity derivatives activities will be expanded further on the other hand in the wake of the division of labour. New products are expected to support our HSBC Trinkaus Investment Products sales initiative in the future. Overall, owing to this orientation growth in revenues from trading activities is more dependent on the performance of and turnover on the European stock markets than before. Even given an unexpectedly favourable general setting, it will scarcely be possible to reach the extremely high earnings contribution from trading recorded in 2007.

The investments in IT systems will be continued to the extent planned in 2007 in order to realise further increases in efficiency in different areas of the Bank. These will be accompanied by adjustments which are necessary to effectively support integration into the HSBC Group. We successfully completed the Basel II project together with the introduction of a new reporting system with effect from 1 January 2008. We already fulfilled the new requirements of the European Markets in Financial Instruments Directive (MiFID) in November. After completing the introductory projects, it is now a question of fulfilling the requirements in day-to-day business. The Bank's already high regulatory costs, to which the requirements of the Sarbanes-Oxley Act (SOX) also contribute, will therefore be increased further. The introduction of SEPA (Single European Payments Area), which was prescribed by national legislation in implementing the EU provisions, can be referred to as an example of the provisions which the banks have to implement at their own expense and which will lead to lower earnings. The public service authorities are not prepared to implement the new standards themselves in the next few years. Apart from system separation in securities settlement an additional project will be the implementation of the new withholding tax in 2008. There will be a major need for the bank systems to adjust in this case as well, as the legislature lacks the political will to introduce clear standard regulations. On the other hand, in addition to the interest withholding tax which has already had to be collected for the tax authorities free of charge to date, the banks will also be required to transfer withholding tax for capital gains without being compensated for the costs involved with effect from 1 January 2009. Overall, despite the cautious management of resources we are expecting an increase in administrative expenses in the high single-digit percentage region for 2008 excluding the effect of the full consolidation of ITS.

Following the further issue of new participatory capital in 2006 and after the planned reinvestment of net profit for 2007, the Bank's capital position is good and will enable the targeted and return-oriented expansion of our business activities. We will not increase our subordinated capital further as long as the distortions from the banking crisis continue. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business. We plan to generate an unchanged dividend for our shareholders for 2008.

Risk Management

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively managing it and systematically transforming it. We regard counterparty, market and liquidity risk, operative and strategic risks and not least also risks to our reputation 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. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the Bank has taken out adequate insurance. We avoid reputational and 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 of our core lines of business on the other.

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 committee for operational risks 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.

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 can never be ruled out completely.

Because of this, the short decision-making channels to the senior management as well as the awareness of risks taken and the continuous development of the Group's risk management system are all of central importance.

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. It results primarily from the Bank's strategic orientation. HSBC Trinkaus & Burkhardt is particularly exposed to such risk as there is strong competition for our clients in the market on account of their major significance.

The Bank's strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent on our clients' activities on the equity, bond, foreign exchange and derivatives markets, and also on the capital markets' capacity to absorb new interest rate and equity product issues. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for high net worth private clients, can only counteract this risk to a limited extent. Thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way via the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

The increasing use of the Internet and electronic trading platforms has led to steady declines in margins on the one hand and the clients' ties with the Bank becoming looser on the other. This means that considerable revenue potential could be under threat unless we succeed in countering this trend by offering a comprehensive service, first-class client advice and the immediate execution of orders. The pressure on margins in the individual banking services is steadily increasing and we are combating this trend by rationalising and automating our working processes. Information technology is becoming more and more important in this context.

The further modernisation of our IT architecture will demand significant personnel and financial resources in the future as well. These investments will be accompanied by increased expenses for third-party software and write-downs on software and hardware resulting in a further significant increase in the Bank's cost base.

The increasing regulatory control in the German banking system and responsibilities stipulated by the government being passed on to the banks, such as money laundering control and the collection of taxes together with the accompanying examinations, has led to a significant increase in regulatory costs for the Bank about which we are extremely concerned. This trend will lead to a substantial increase in the Bank's fixed costs. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. We are extremely sceptical as to whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for the Bank.

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

Counterparty risk

a) Organisation of the credit processes

Counterparty risk may be subdivided into credit 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 contractual 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.

In line with 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.

Moreover, we adhere to the principle of risk diversification. 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, and that our credit risks are widely spread across different industry sectors and counterparties.

The minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (BaFin) in December 2005 are being consistently complied with. 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 the current requirements on a regular basis.

In the light of the reform of the Basel Capital Accord, the Bank has used a 22-stage rating system to classify the credit quality of its corporate and institutional clients (see also section on Basel II) in the lending business since 2005. In order to determine the internal rating, the Bank uses four rating systems which cover the customer groups international corporations, German medium-sized companies, banks and financial service providers. These systems are already being used for risk classification and their details being constantly improved. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and any collateral agreements.

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

The rating system for large international corporations, banks and financial service providers was adopted by the Bank from the HSBC Group after an internal inspection of its suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for this internationally oriented portfolio. In addition to the statistical analysis of financial data and analysis of the sector and country risk, all HSBC rating systems include a qualitative evaluation of the company and its economic environment which is drawn up by customer service officers in Germany in collaboration with the local credit experts.

The expected probability of default for each borrower can be derived from the rating. On this basis, the expected loss for the individual loan exposures is estimated taking into account security and other agreements. A loan impairment provision is set up 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 over a period of time so that the cash value of these payments can be compared with the book value of the loan exposure. The loan impairment provision fully covers 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–aggregated on a global basis for clients with relationships to other HSBC units–is adequate in proportion to the risk assumed.

Credit risk monitoring is conducted by applying 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 or doubtful 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, especially in Asian and Latin American countries.

The compliance with country limits is controlled on a daily basis with the help of IT programs that also take risk transfers (to or from other countries) into account.

The Bank is deliberately reticent about foreign lending, except where the purpose is to assist clients in their business dealings. The local offices of the HSBC Group are better able to assess many risks which are difficult for us to evaluate. We therefore pass these client relationships on to the local units.

b) Maximum exposure to credit risk

Above all loans and advances, trading assets, financial assets as well as contingent liabilities and lending commitments can be affected by credit 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. However, we do not go into this in more detail below on account of the extremely short settlement periods.

The following table shows the Bank's theoretical maximum exposure to credit risk as of the balance sheet date disregarding collateral received and other credit enhancements. It can be quantified best by means of the carrying amount of the financial assets (including OTC derivatives).

Any amount offset in accordance with IAS 32 as well as the impairment losses recognised in accordance with IAS 39 are taken into consideration in the gross carrying amount. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees, the maximum credit risk exposure corresponds to the highest amount the Bank would have to pay in the event of a claim under the guarantee. The maximum credit 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 & Burkhardt's maximum credit risk according to this definition breaks down as follows as of the balance sheet date:

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Loans and advances to	**8,389.9**	**33.4**	**7,613.2**	**33.4**
Banks	4,117.0	16.4	4,440.1	19.5
Customers	4,272.9	17.0	3,173.1	13.9
Trading assets	**9,888.0**	**39.3**	**8,464.6**	**37.2**
Bonds and other fixed-income securities	6,241.9	24.9	3,978.9	17.5
Equities and other non fixed-income securities	479.4	1.9	859.0	3.8
Marketable receivables	813.1	3.2	1,136.8	5.0
OTC derivatives	1,311.8	5.2	1,326.4	5.8
Reverse repos/securities lending	1,041.8	4.1	1,163.5	5.1
Financial assets	**1,567.9**	**6.2**	**1,437.6**	**6.3**
Bonds and other fixed-income securities	885.8	3.5	929.6	4.1
Equities	41.5	0.2	49.2	0.2
Investments	383.3	1.5	221.7	1.0
Promissory note loans	157.2	0.6	163.1	0.7
Interests in subsidiaries	100.1	0.4	74.0	0.3
Financial guarantees	**1,617.2**	**6.4**	**1,581.2**	**6.9**
Loan commitments	**3,704.3**	**14.7**	**3,701.1**	**16.2**
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

c) Collateral and other credit enhancements

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

The Bank uses internally developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is recorded 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. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. The credit analyst obtains a valuation for securities for which no valuation is available.

Financial guarantees in the form of pledged accounts and/or securities accounts at third-party banks are excluded from this. A valuation and 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 the determined value of 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 subject to examination at regular intervals. With charges on property, the property serving as security is to be revalued after five years at the latest. Where the loan secured by a charge on property exceeds 50% of the value of the property serving as collateral, an annual revaluation is required. 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 financial guarantees and loan commitments

31.12.2007					
in € million	Loans and advances to banks	Loans and advances to customers	Financial guarantees	Loan commit-ments	Total
Neither past due, nor impaired	4,117.0	4,251.2	1,595.3	3,699.8	13,663.3
Past due, but not impaired	0.0	1.2	–	–	1.2
Individually impaired*	0.0	20.5	21.9	4.5	52.8
Total	**4,117.0**	**4,272.9**	**1,617.2**	**3,704.3**	**13,717.3**

31.12.2006					
in € million	Loans and advances to banks	Loans and advances to customers	Financial guarantees	Loan commit-ments	Total
Neither past due, nor impaired	4,440.1	3,133.3	1,554.9	3,698.3	12,826.6
Past due, but not impaired	0.0	1.5	–	–	1.5
Individually impaired*	0.0	38.3	26.3	2.8	67.4
Total	**4,440.1**	**3,173.1**	**1,581.2**	**3,701.1**	**12,895.5**

* including 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 € million	31.12.2007			31.12.2006		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	995.9	246.4	1,242.3	797.3	223.0	1,020.3
AA+ to AA-	4,889.6	218.4	5,108.0	2,820.8	198.0	3,018.8
A+ to A-	117.0	133.2	250.2	86.6	193.1	279.7
BBB+ to BBB-	10.0	71.5	81.5	10.2	51.5	61.7
Below BBB-	0.0	28.5	28.5	0.0	15.7	15.7
Unrated	229.4	187.8	417.2	264.0	248.3	512.3
Total	**6,241.9**	**885.8**	**7,127.7**	**3,978.9**	**929.6**	**4,908.5**

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

		31.12.2007		31.12.2006	
		in € million	in %	in € million	in %
OECD	Banks	1,127.1	85.9	1,113.4	84.0
	Financial institutions	45.1	3.4	94.8	7.2
	Other	135.6	10.1	115.8	8.7
Non-OECD	Banks	1.4	0.1	0.9	0.0
	Financial institutions	0.0	0.0	0.0	0.0
	Other	2.6	0.5	1.5	0.1
Total		**1,311.8**	**100.0**	**1,326.4**	**100.0**

e) Information on exposures which are neither past due nor impaired

The quality of the loans and advances (including financial guarantees and loan commitments) which are neither past due nor impaired is determined by means of an internal rating procedure. Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto seven financial grades. Financial grades 1–5 comprise as a rule exposures which are neither past due nor impaired. The credit quality as of the balance sheet date was as follows:

31.12.2007					
in € million	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commit-ments	**Total**
Rating classes 1-2	4,103.0	1,791.4	805.3	1,671.9	**8,371.6**
Rating classes 3-4	14.0	2,454.7	787.3	2,027.9	**5,283.9**
Rating class 5	0.0	5.1	2.7	0.0	**7.8**
Total	**4,117.0**	**4,251.2**	**1,595.3**	**3,699.8**	**13,663.3**

31.12.2006					
in €m	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commit-ments	**Total**
Rating classes 1-2	4,384.9	1,359.4	784.3	1,647.2	**8,175.8**
Rating classes 3-4	55.2	1,769.8	768.2	2,051.1	**4,644.3**
Rating class 5	0.0	4.1	2.4	0.0	**6.5**
Total	**4,440.1**	**3,133.3**	**1,554.9**	**3,698.3**	**12,826.6**

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

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

The Bank's loans and advances which have not been impaired although past due are the result of the purchase of credit-insured foreign accounts receivable outside the European Union. These loans and advances amounted to €0.8 million in 2007 (2006: €0.4 million). No corresponding impairments were made on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at €0.7 million in the year under report (2006: €0.4 million).

There are also past due, but not impaired claims resulting from excess interest of €0.4 million (2006: €1.1 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 (2006: €1.4 million).

g) Information on exposures for which loan impairment and other credit risk provisions have been set up
HSBC Trinkaus & Burkhardt carries out loan impairment and other credit risk provisioning 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 circumstances applies, a value correction is to be made on the 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. The credit ratings 6 and 7 include problematic exposures for which loan impairment and other credit risk provisions have been set up. Loan impairment and other credit risk provisions set up to allow for country risks also include exposures with higher credit ratings.

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

	31.12.2007			31.12.2006		
in € million	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	**Total**
Carrying amount before individual impairment provisions						
Credit ratings 1-5	0.0	5.2	5.2	0.0	5.3	**5.3**
Credit rating 6	0.0	11.0	11.0	0.0	26.9	**26.9**
Credit rating 7	0.0	4.3	4.3	0.0	6.1	**6.1**
Total	**0.0**	**20.5**	**20.5**	**0.0**	**38.3**	**38.3**
Individual impairment provisions						
Credit ratings 1-5	0.0	3.1	3.1	0.0	2.8	**2.8**
Credit rating 6	0.0	6.8	6.8	0.0	4.9	**4.9**
Credit rating 7	0.0	2.6	2.6	0.0	4.0	**4.0**
Total	**0.0**	**12.5**	**12.5**	**0.0**	**11.7**	**11.7**
Carrying amount after individual impairment provisions	**0.0**	**8.0**	**8.0**	**0.0**	**26.6**	**26.6**

Within the scope of its loan impairment and other credit risk provisioning HSBC Trinkaus & Burkhardt also sets up provisions for anticipated losses for individual financial guarantees and loan commitments: these amounted to €6.6 million (2006: €10.0 million) in the year under report.

In addition to individual impairment provisions, the Bank also carries out collective impairment provisions. These stood at €3.7 million (2006: €5.1 million) for loans and advances and to €0.9 million (2006: €0.9 million) for financial guarantees and loan commitments.

Credit-related impairments on financial investments came to €7.1 million in the year under report (2006: €9.1 million).

h) Information on collateral held

As regards loans and advances which have been individually impaired, collateral and other credit enhancements in the form of guarantees, transfers of title as security as well as assignments are held, the value of which totalled €4.3 million (2006: €5.4 million) in the year under report.

i) Realisation of collateral held and drawing on other credit enhancements

Collateral held and other credit enhancements amounting to €0.9 million were realised and drawn on, respectively, in the 2007 financial year (2006: €0.0 million).

j) Information on credit risk concentration

There can be a concentration of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region as a result of which their ability to fulfil their financial obligations to HSBC Trinkaus & Burkhardt is influenced equally 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 exposure to credit risks break down as follows:

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Risk concentration by sector				
Banks and financial institutions	12,909.8	51.3	13,376.3	58.6
Companies and self-employed professionals	10,885.3	43.3	7,838.9	34.4
Public sector	736.3	2.9	909.4	4.0
Employed private individuals	635.9	2.5	673.1	3.0
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Risk concentration by region				
Domestic	13,987.9	55.6	13,268.7	58.2
Other EU (including Norway and Switzerland)	9,857.7	39.2	8,201.8	36.0
North America	470.7	1.9	537.6	2.4
Asia	435.3	1.7	434.8	1.9
South America	309.3	1.2	274.0	1.2
Rest of Europe	61.7	0.2	43.3	0.2
Africa	39.4	0.2	28.0	0.1
Oceania	5.3	0.0	9.5	0.0
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

The breakdown by sector shows that loans and advances are made predominantly to banking organisations and financial institutions.

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 in this respect.

Basel II

The Basel II framework, which was adopted into national law in 2006 via the introduction of the German Solvency Regulation (Solvabilitätsverordnung), is focused on the amendment of the regulatory equity capital requirements for the lending business. HSBC Trinkaus & Burkhardt made use of the transitional regulation of the Solvency Regulation and implemented the IRB approach with effect from 1 January 2008. The IRB approach leads to the highly differentiated consideration and quantification of risk. By introducing the IRB approach, the Bank controls the risk sensitivity of its portfolio in compliance with the capital adequacy requirements. Credit risk management is an integral part of risk-adjusted controlling throughout the Bank.

The Basel II requirements were implemented at HSBC Trinkaus & Burkhardt by a central project group set up to coordinate implementation above all in the fields of credit, accounting and IT. The Bank already introduced a new Basel-II-compliant client rating system in 2005. The examination for certification of the internal rating systems by the German banking supervisory authorities took place in the first quarter of 2007 and there were no serious findings. The examination of the calculation of the capital requirements as well as for the final approval of the rating systems by the German banking supervisory authorities is planned for May 2008.

The Bank is still working closely together with the HSBC Group as regards the application of Basel-II-compliant methods, systems and processes. In doing so it benefits significantly from the international transfer of know-how between the Group's various units.

We focused in 2007 not only on revising the examination results and optimising the rating processes and data quality, but also on implementing standard software for equity capital backing and for generating supervisory reports. All of the necessary processes have been running without any significant problems since 1 January 2008. All of the requirements for the first report according to the new law have been implemented on time.

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 are inherent in any area of an organisation and embrace a broad spectrum. In this respect legal risks are also regarded as operational risks.

HSBC Trinkaus & Burkhardt has always attached major importance to the reduction of operational risks to an acceptable level while taking the costs involved into consideration. The operational risks committee is the central body responsible for the control of operational risks as well as reputational risks across the board within the Bank. The 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.

The operational risks committee's job 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 operational risks identified within the scope of this self-assessment are weighted according to their loss potential and the likelihood of their occurrence before taking into account any risk reduction measures taken in order to determine the absolute inherent risk. On this basis, risks are then assigned to one of five risk categories, explicitly allowing for the control environment already implemented. 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. It 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 at the subsidiaries are responsible for the information recorded reflecting the current risk profile of the division or the subsidiary at all times.

As the Group-wide coordinator, the secretary of the operational risks committee initiates and monitors the implementation of the committee's decisions in the Bank including its subsidiaries. In collaboration with the HSBC Group, the methods, concepts and instruments of operational risk management are constantly refined and developed further.

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

A further significant instrument in the identification and observation of operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus & Burkhardt 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 (potential) incident is analysed to establish whether the error was an isolated occurrence or is likely to recur. The committee then decides on any measures necessary to reduce that risk. 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 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 committee's work has generated significantly greater awareness of operational risk among all Bank staff in recent years. 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.

Operational risk is minimised at HSBC Trinkaus & Burkhardt 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. Flat hierarchies and direct communication mean that problems can be quickly removed and the risk therefore reduced.

Workflow descriptions of the individual business processes stipulate in detail which controls are built in to 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: currency risk, interest rate risk as well as equity and other price risks. Market risks arise at HSBC Trinkaus & Burkhardt 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 we have used for many years 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, in the event of an unfavourable market trend. 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 4 of the consolidated financial statements for the valuation of the financial instruments included in the model). Interest rate risk embraces 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. Spread risks from other interest-rate positions are not included in the model in view of their minimal importance for trading activities. Issuer-specific interest-rate risks are 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 are as follows:

in € million	2007			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	9.2	7.2	4.8	10.7
Currency-related transactions	1.0	0.3	0.1	1.4
Equity/index-related transactions	3.6	5.4	3.0	9.7
Total potential market risk in the trading portfolio	**10.2**	**8.9**	**5.4**	**12.1**

in € million	2006			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	5.2	4.8	3.3	6.8
Currency-related transactions	0.3	0.4	0.1	1.0
Equity/index-related transactions	4.7	4.1	2.3	6.4
Total potential market risk in the trading portfolio	**7.6**	**6.4**	**3.4**	**9.1**

The model, with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to HSBC Trinkaus & Burkhardt AG's trading book pursuant to the Solvency Directive. The model-specific add-on factor currently amounts to 3.2. Specific risks as well as commodities risks are covered through the standard approach for regulatory purposes.

We also use the internal value-at-risk model to quantify the market risks inherent in the special assets managed by our subsidiaries within the scope of an outsourcing service contract.

For risk assessment quality assurance purposes we also 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. In 2007, no back-testing anomalies were found anywhere throughout the Bank, a fact which suggests that the risk modelling employed is probably still 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. Alongside the use of limits, we also counteract high levels of uncertainty in the valuation of positions in illiquid markets by making adequate valuation adjustments. The disruption in the market for AMS products as a result of the subprime crisis in the USA has highlighted the extent to which fluctuations in the prices of financial instruments can depend on market liquidity. The subprime crisis has not resulted in any notable burdens for HSBC Trinkaus & Burkhardt as it holds almost no ABS positions.

Value-at-risk approaches are acknowledged as being 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 controlling department 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. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the limits are automatically reduced. Owing to the favourable trend in earnings overall, it was not necessary to reduce the risk limits in the latest financial year on overall Bank level. The Market Risk Controlling department also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

The average market risk potential in the long-term investments (99% confidence interval/10-day holding period) came to €3.2 million (2006: €2.0 million). Market risks in the Bank's investment book are determined outside the risk models and are controlled at executive management level.

Liquidity risk

We understand liquidity risk as the danger of insolvency. We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities.

Trading assets are mainly self-financed by the trading department by taking up or issuing structured promissory note loans, bonds and certificates. Demand deposits and time deposits by customers are reinvested, despite a high level of core deposits in short-dated money market securities of the HSBC Group, as financial security within the scope of securities lending transactions to finance short-date forward buying by customers or in the inter-bank money market. Almost all bonds in the investment portfolio, as well as significant amounts of bonds in the trading portfolio, are eligible as collateral with the German Bundesbank as well as various clearing institutions. This fully covers the needs of our various business activities. In order to tap into additional liquidity reserves, we have been participating in the Deutsche Bundesbank's new electronic submission procedure for loan receivables since January 2007.

The Bank's structural liquidity position is determined and managed by the asset and liability management committee and also coordinated with HSBC. As part of the control process, the balance sheet structure and key liquidity ratios are constantly monitored and liquidity commitment reports with various scenarios employed periodically.

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 shown in the balance sheet.

31.12.2007					
			Gross outflow (undiscounted)		
in € million	Carrying amount	Σ	< 3 months	3 to 12 months	> 12 months
Deposits by banks	2,532.7	2,559.4	2,318.3	48.5	192.6
Customer accounts	10,283.2	10,403.8	9,732.0	169.3	502.5
Certificated liabilities	10.0	13.9	0.4	0.0	13.5
Trading liabilities	6,488.4	6,963.2	4,128.5	518.9	2,315.8
of which derivatives	1,642.0	1,845.0	349.9	460.5	1,034.6
Provisions	112.4	117.2	105.3	0.0	11.9
Other liabilities	110.2	114.8	71.9	6.5	36.4
Subordinated capital	458.7	688.5	3.1	20.4	665.0
Loan commitments	3,704.3	3,704.3	3,704.3	0.0	0.0
Total	**23,699.9**	**24,565.1**	**20,063.8**	**763.6**	**3,737.7**

31.12.2006					
			Gross outflow (undiscounted)		
in € million	Carrying amount	∑	< 3 months	3 to 12 months	> 12 months
Deposits by banks	1,495.7	1,506.2	1,441.2	30.9	34.1
Customer accounts	8,861.4	8,965.2	8,438.2	114.6	412.4
Certificated liabilities	29.8	31.4	0.0	20.2	11.2
Trading liabilities	6,683.6	7,228.7	4,166.3	420.0	2,642.4
of which derivatives	1,664.3	1,935.3	255.8	332.3	1,347.2
Provisions	113.0	126.6	0.0	60.1	66.5
Other liabilities	105.4	109.5	30.6	53.4	25.5
Subordinated capital	440.6	653.5	5.1	10.3	638.1
Loan commitments	3,701.1	3,701.1	3,701.1	0.0	0.0
Total	**21,430.6**	**22,322.2**	**17,782.5**	**709.5**	**3,830.2**

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 several of the uncalled loan commitments are not drawn on.

IFRS 7 requires that gross outflows be reported 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 Bank's liquidity position here.

Our internal cash reserves still comfortably exceed the supervisory requirements. In the light of this, we are therefore not planning to introduce an internal model for liquidity risk at present. The tensions on the money markets resulting from the subprime crisis highlight the importance of responsible liquidity management. The Bank has not entered into any obligations arising from liquidity lines for SPVs. Our defensive business policy approach has proven itself in the crisis and is also to be upheld in the future.

Since the Bank's liquidity situation cannot be adequately reproduced by looking at liabilities alone, the book values of the respective 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 € million		Up to 3 months	> 3 months to 1 year	> 1 year	No fixed term	Total
Deposits by banks	31.12.2007	3,365.1	751.5	0.4	0.0	4,117.0
	31.12.2006	4,411.8	28.3	0.0	0.0	4,440.1
Customer accounts	31.12.2007	3,297.6	583.7	391.6	0.0	4,272.9
	31.12.2006	2,546.5	291.8	334.8	0.0	3,173.1
Trading assets	31.12.2007	10,436.8	0.0	0.0	0.0	10,436.8
	31.12.2006	9,044.0	0.0	0.0	0.0	9,044.0
Financial assets	31.12.2007	74.7	209.8	758.7	525.0	1,568.2
	31.12.2006	258.5	93.7	740.5	334.9	1,437.6
Other assets	31.12.2007	25.6	19.8	0.0	31.9	77.3
	31.12.2006	54.5	4.3	0.0	9.8	68.6
Total	**31.12.2007**	**17,199.8**	**1,564.8**	**1,150.7**	**556.9**	**20,472.2**
	31.12.2006	**16,315.3**	**418.1**	**1,075.3**	**354.7**	**18,163.4**

In € million		Up to 3 months	> 3 months to 1 year	> 1 year	No fixed term	Total
Deposits by banks	31.12.2007	2,316.9	47.4	168.4	0.0	2,532.7
	31.12.2006	1,437.3	30.2	28.2	0.0	1,495.7
Customer accounts*	31.12.2007	9,708.1	165.8	409.3	0.0	10,283.2
	31.12.2006	8,417.2	112.2	332.1	0.0	8,861.4
Certificated liabilities	31.12.2007	0.0	0.0	10.0	0.0	10.0
	31.12.2006	0.0	19.8	10.0	0.0	29.8
Trading liabilities**	31.12.2007	6,488.4	0.0	0.0	0.0	6,488.4
	31.12.2006	6,683.6	0.0	0.0	0.0	6,683.6
Provisions	31.12.2007	105.3	0.0	7.1	0.0	112.4
	31.12.2006	0.0	58.8	54.2	0.0	113.0
Other liabilities	31.12.2007	71.4	6.3	32.5	0.0	110.2
	31.12.2006	30.4	52.2	22.8	0.0	105.4
Subordinated capital	31.12.2007	0.0	0.0	458.7	0.0	458.7
	31.12.2006	5.1	10.1	425.4	0.0	440.6
Total	**31.12.2007**	**18,690.1**	**219.5**	**1,086.0**	**0.0**	**19,995.6**
	31.12.2006	**16,573.6**	**283.2**	**872.7**	**0.0**	**17,729.5**

* Customer deposits include savings deposits for the first time. The prior-year figures have been adjusted accordingly.
** 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 57.

Staff

Number of employees

The number of employees increased during 2007 by 209 compared to the previous year to a total of 1,828 at the end of the year. Eight trainees completed their banking qualifications and ten passed their examinations in office communications in the year under report. Two trainees also successfully completed their training in information technology. At the end of 2007 we were paying retirement, widow's and orphan's pensions to 546 recipients, compared to 533 at the end of the previous year.

Advanced training

In view of the demographic trend and the extremely high demands we at the Bank make of ourselves, the professional and social skills of our employees are of the utmost importance in two respects. Only with qualified and motivated personnel can we meet our clients' exacting quality standards in the long term. Taking this into consideration, we pay particular attention to the further training of our employees. For example, we help them to advance by providing individual in-house product-specific training for both client-related and various specialist areas of the Bank, leadership and acquisition seminars and communication training. Our advanced training activities are rounded off by specialised study and training courses as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). When selecting vocational training measures and recruiting suitable trainers, we pay close attention to 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. The incentive provided for our managerial staff in the form of a profit participation scheme is to be pointed out here in particular.

Thanks

The Bank continues to owe its success to the major 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 trusted cooperation once again over the past financial year.

Shareholders and Shares

Capital

At 31 December 2007 the Bank's issued share capital was €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 indirectly held an unchanged share of 20.3%.

Share price and market value

During 2007 our share price rose 8.6% to €114.00. The lowest fixing price of the year was €101.00 and the highest €122.50. From the initial issue price of DM190 per DM50 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 € million
31.12.1985	18,000,000	17.6	317.5
31.12.1990	22,000,000	19.8	435.3
31.12.1995	23,500,000	30.6	718.5
31.12.2000	26,100,000	110.0	2,871.0
31.12.2005	26,100,000	87.5	2,283.8
31.12.2006	26,100,000	105.0	2,740.5
31.12.2007	26,100,000	114.0	2,975.4

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

Dividends

For the 2007 financial year we propose paying a dividend of €2.50 per share (2006: €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 2007.

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in € million	(Notes)	31.12.2007	31.12.2006	Change	
				in € million	in %
Cash reserve	(19)	332.3	436.3	-104.0	-23.8
Loans and advances to banks	(4, 20)	4,117.0	4,440.1	-323.1	-7.3
Loans and advances to customers	(4, 21)	4,272.9	3,173.1	1,099.8	34.7
Net loan impairment provisions	(6, 22)	-16.2	-17.0	0.8	4.7
Trading assets	(4, 23)	10,436.8	9,044.0	1,392.8	15.4
Financial assets	(4, 24)	1,568.2	1,437.6	130.6	9.1
Interests in associates	(25)	15.2	1.5	13.7	> 100.0
Property, plant and equipment	(9, 26)	196.3	80.4	115.9	> 100.0
Intangible assets	(10, 26)	12.3	9.3	3.0	32.3
Income tax assets	(14, 27)	54.8	2.5	52.3	> 100.0
current		54.8	2.5	52.3	> 100.0
deferred		0.0	0.0	0.0	0.0
Other assets	(28)	77.3	68.6	8.7	12.7
Total assets		**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Liabilities in € million	(Notes)	31.12.2007	31.12.2006	Change	
				in € million	in %
Deposits by banks	(4, 31)	2,532.7	1,495.7	1,037.0	69.3
Customer accounts	(4, 32)	10,283.2	8,861.4	1,421.8	16.0
Certificated liabilities	(33)	10.0	29.8	-19.8	-66.4
Trading liabilities	(4, 34)	6,488.4	6,683.6	-195.2	-2.9
Provisions	(13, 35)	112.4	113.0	-0.6	-0.5
Income tax liabilities	(14, 36)	106.2	62.0	44.2	71.3
current		48.4	25.7	22.7	88.3
deferred		57.8	36.3	21.5	59.2
Other liabilities	(37)	110.2	105.4	4.8	4.6
Subordinated capital	(38)	458.7	440.6	18.1	4.1
Shareholders’ equity	(39)	965.1	884.9	80.2	9.1
Share capital		70.0	70.0	0.0	0.0
Capital reserve		212.9	211.4	1.5	0.7
Retained earnings		486.7	481.8	4.0	0.8
Consolidated profit available for distribution		195.5	121.7	73.8	60.6
Total equity and liabilities		**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Consolidated Income Statement HSBC Trinkaus & Burkhardt

Income statement in € million	(Notes)	2007	2006	Change	
				in € million	in %
Interest income		448.4	285.1	163.3	57.3
Interest expense		338.4	196.5	141.9	72.2
Net interest income	(41)	110.0	88.6	21.4	24.2
Net loan impairment and other credit risk provisions	(6, 43)	-3.5	-5.2	1.7	-32.7
Share of profit in associates	(42)	6.4	2.5	3.9	> 100.0
Fee income		620.7	520.4	100.3	19.3
Fee expenses		302.6	238.6	64.0	26.8
Net fee income	(44)	318.1	281.8	36.3	12.9
Net trading income	(45)	100.1	104.0	-3.9	-3.8
Administrative expenses	(46)	333.4	298.6	34.8	11.7
Net income from financial assets	(47)	1.9	6.5	-4.6	-70.8
Net other income/expenses	(48)	1.2	-0.5	1.7	> 100.0
Profit before taxes		**207.8**	**189.5**	**18.3**	**9.7**
Tax expense	(49)	63.4	74.9	-11.5	-15.4
Net profit for the year		**144.4**	**114.6**	**29.8**	**26.0**
Profit brought forward		51.1	7.1	44.0	> 100.0
Consolidated profit available for distribution		**195.5**	**121.7**	**73.8**	**60.6**
Dividend distribution		65.3	65.3	0.0	0.0
Retained earnings and profit brought forward		**130.2**	**56.4**	**73.8**	**> 100.0**

The Management Board proposes to the Annual General Meeting the distribution of a dividend of €2.50 per share (2006: €2.50 per share).

Earnings per share

	2007	2006
Net profit for the year in € million	144.4	114.6
Profit attributable to minority interests in € million	0.0	0.0
Net profit for the year after minority interests in € million	144.4	114.6
Average number of shares in circulation (in million)	26.1	26.1
Earnings per share in €	**5.53**	**4.39**
Undiluted earnings per share in €	**5.53**	**4.39**

As in 2006, there were no option and conversion rights outstanding for the purchase of shares in the 2007 financial year. There was therefore no calculable dilution effect. This means that for the past two financial years, basic earnings per share have equalled undiluted earnings per share.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 17) had a material impact on earnings per share.

Consolidated Statement of Changes in Equity HSBC Trinkaus & Burkhardt

in € million	Share capital	Capital reserve	Retained earnings	Consolidated profit available for distribution	Minority interests	Equity
At 31.12.2005	**70.0**	**211.0**	**430.9**	**122.7**	**0.0**	**834.6**
Dividend distribution				-65.3		-65.3
Retention from 2005 profit available for distribution			50.3	-50.3		0.0
Currency translation differences			0.0			0.0
Addition from net profit for the year				114.6		114.6
Gains/losses not recognised in the income statement			0.6			0.6
Share option scheme		0.4				0.4
At 31.12.2006	**70.0**	**211.4**	**481.8**	**121.7**	**0.0**	**884.9**
Dividend distribution				-65.3		-65.3
Retention from 2006 profit available for distribution			5.3	-5.3		0.0
Currency translation differences						0.0
Addition from net profit for the year				144.4		144.4
Gains/losses not recognised in the income statement			-1.0			-1.0
Effect on equity of first-time consolidation at equity			0.6			0.6
Share-based payments		1.5				1.5
At 31.12.2007	**70.0**	**212.9**	**486.7**	**195.5**	**0.0**	**965.1**

Comprehensive income for the period

in € million	2007	2006
Net profit for the year	144.4	114.6
Gains/losses not recognised in the income statement	-1.0	0.6
of which from financial instruments	-12.4	-5.3
of which from actuarial results	11.4	5.9
Total	**143.4**	**115.2**

See Note 39 on the development of unrealised gains/losses from financial instruments.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in € million	2007	2006
Net profit for the year	144.4	114.6
Non-cash items in net profit and adjustments to reconcile net profit to net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	36.6	61.1
Net profit from sale of equity-linked financial investment instruments, property and equipment	0.0	-0.1
Other adjustments (net)	-52.0	4.5
Sub-total	129.0	180.1
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	323.1	-1,129.7
Loans and advances to customers	-1,102.1	-695.9
Securities held for trading	-1,588.0	-635.6
Other assets	-179.5	-26.1
Liabilities	2,459.1	1,977.9
Certificated liabilities	-19.8	-4.8
Other liabilities	5.0	-52.6
Total adjustments	-102.2	-566.8
Interest received	446.8	276.1
Dividends received	8.0	11.5
Interest paid	-338.5	-196.5
Income taxes paid	-54.8	-119.1
Cash flows from operating activities	**88.3**	**-414.7**
Proceeds from sale of		
Equity-linked financial investment instruments	0.1	1.5
Property, plant and equipment	1.0	1.4
Purchase of		
Equity-linked financial investment instruments	-15.0	-2.4
Property, plant and equipment	-131.3	-15.2
Effects of changes in the group of consolidated companies	0.0	0.0
Cash flows from investing activities	**-145.2**	**-14.7**
Dividends paid	-65.3	-65.3
Adjustments to subordinated capital	18.2	132.4
Cash flows from financing activities	**-47.1**	**67.1**
Cash and cash equivalents at beginning of year	**436.3**	**798.6**
Cash flows from operating activities	88.3	-414.7
Cash flows from investing activities	-145.2	-14.7
Cash flows from financing activities	-47.1	67.1
Cash and cash equivalents at end of year	**332.3**	**436.3**

Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2007 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Section 315a (1) of the German Commercial Code (HGB) has 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 in 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 2007, 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 exercises a controlling influence. In addition, we have fully consolidated three special funds (2006: two) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 61.

HSBC Trinkaus Consult GmbH, Düsseldorf, and Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH, Düsseldorf are no longer included within the scope of consolidation.

The following companies–Deutscher Pension Trust GmbH, Trinkaus Immobilien-Fonds Verwaltungs-GmbH, Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG and Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH–all of which have registered offices in Düsseldorf, were established during the financial year under report and are therefore included for the first time within the scope of consolidation.

HSBC Trinkaus also increased its stake in SINO AG, Düsseldorf, to 25.13% initially as at 31 March 2007 and finally to 26.59% as at 7 December 2007. SINO AG is therefore recognised for the first time in the year under report as an associated company consolidated at equity.

2 Consolidation Principles

In accordance with IAS 27.28, 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 make a distinction 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 other market price-related revaluation results of the corresponding instrument are treated.

Income and expenses resulting from the translation of foreign currency 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. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings. Translation differences recognised in, or without effect on, the income statement had no significant impact in the 2007 financial year, as in the previous year.

4 Financial Instruments

Recognition
HSBC Trinkaus reports 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, that 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, interest rate risk, foreign exchange risk and market risk. The same principle applies to securities lending transactions.

Where it is necessary pursuant to IAS 39 to split hybrid financial instruments into the host contract and the derivative portion (embedded derivative), we have recorded the derivative separately in the balance sheet.

Recognition 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 costs	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	Held-for-trading
	Trading liabilities	Held-for-trading
Off-balance-sheet business (IAS 37)	Contingent liabilities	
	Other liabilities	

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. Additionally, we allocate all financial instruments at initial recognition to the categories as defined in IAS 39, which are decisive to the subsequent measurement. We have implemented the rules as follows at the HSBC Trinkaus Group:

a) Financial assets and 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 derivates–including embedded derivatives which are required to be separated–financial instruments in the held-for-trading sub-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 valuation method for the financial instruments in question is independent of trading. As long as 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. Hence, there is no distribution over the transaction term. All realised profits and losses, as well as the unrealised measurements 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 at fair value or to the financial assets from the very outset. 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 risk provisions for loans and advances.

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 that were 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 holdings.

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 the value vis-à-vis the net acquisition cost 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 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 net income from financial investments. 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 financial liabilities” category includes all financial liabilities that were not allocated to the “fair value” category. They are therefore not measured at fair value through the income statement, but at amortised cost: as a rule, other financial 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.

5 Hedge Accounting

There were no hedging relationships pursuant to IAS 39 (hedge accounting) as at the balance sheet date.

6 Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions as risk provisions for loans and advances on the assets side, and as provisions for credit risks on the liabilities side. Net loan impairment provisioning differentiates between individual impairment provisions and collective impairment provisions.

Individual impairment provisions in relation to on-balance-sheet items and off-balance-sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 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 the financial position in the consolidated Financial Statements for further explanations–especially on calculating write-downs/provisions.

Furthermore, write-downs/provisions are created on a collective 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 write-down/provision will then be calculated for each of these portfolios on the basis of historical default probabilities.

Where it is determined that a loan cannot be repaid, the uncollectable amount is first written off against any existing individually assessed impairments, and/or directly recognised as expense in the income statement.

7 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 instead of deposits by banks as in the past (cf. Note 34). The prior-year figure was adjusted accordingly.

Similarly, the outflow of liquidity arising from reverse repos is reported for the first time in the year under report under the balance sheet item trading assets, instead of as loans and advances to banks or clients (cf. Note 23). 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 for the first time in the year under report under the balance sheet items trading assets or trading liabilities, instead of under loans and advances to banks or customers, or deposits by banks (cf. Notes 23 and 34).

8 Interests in Associates

Our interest in International Transactions Services GmbH (ITS), a joint venture with T-Systems Enterprise Services GmbH, and for the first time SINO AG, is reported under interests in associates.

9 Property, Plant and Equipment

The property, plant and equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment.

Land and buildings are used almost entirely for the banking business. Additionally, properties that are held for investment purposes and are generally marketed within the framework of property funds are reported under this item.

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 non-scheduled write-downs. Where the reasons for the non-scheduled write-downs cease, corresponding write-ups are made.

In 2007 there was an increase in non-scheduled write-downs on the value of property and buildings totalling €0.1 million (2006: €0.0 million) which is disclosed under net other income/expenses (cf. Note 48). There were no write-ups in the year under report (2006: €0.2 million). Non-scheduled write-downs are made on the basis of the annual valuations and always reflect the change in the economic valuation of a property. For the purposes of segment reporting, non-scheduled depreciation is allocated to “central divisions/consolidation” (cf. Note 53).

Profits/losses from the disposal of property, plant and equipment totalling €0.1 million (2006: €0.3 million) were shown in net other income/expenses (cf. Note 48). 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.

10 Intangible Assets

The only items disclosed under intangible assets are 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.

11 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 total administrative expenses.

12 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.

At the end of 2007, no Group company held any shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 14,861 treasury shares were bought at an average price of €113.38 (2006: €87.34) and sold at an average price of €115.01 (2006: €87.82). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.03% (2006: 0.73%) of the nominal capital.

13 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 profits 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.

14 Income Tax Assets and Liabilities

Current income taxes are calculated in accordance with the tax rates applicable for each individual company. Current income tax assets are offset against current income tax liabilities provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred income taxes are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations that are used for the taxation of the Group company in question. Deferred tax assets or deferred tax liabilities must be taken into consideration regardless of when the realignment of the valuations occurs. The deferred taxes are 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–such as brought about by the German business tax reform passed in 2008–the balance sheet entries for deferred tax assets or deferred tax liabilities will be adjusted accordingly (cf. Note 49).

15 Share-based Payments

The Group employees have the opportunity to participate in a share option scheme offered by the parent company HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (1, 3 and 5 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.

In addition, the performance-related remuneration components for employees and the Management Board were 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 three equal amounts over the subsequent financial years and is fundamentally subject to continued service for the Bank. It is reported as a share option payment with cash settlement in accordance with IFRS 2; personnel expenses are spread over the vesting period.

The share option scheme for former Managing Partners resulting from the change of legal form to a German stock corporation will also be spread out over three years. This is also reported as share-based payments settled in the form of equity instruments.

16 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. Income from joint ventures is recognised on an accrual basis.

Net fee income includes above all income from securities, foreign exchange and derivatives business, as well as from special advisory services (e.g. Corporate Finance). 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 Global Markets division.

17 IFRS Treatment Applied

IFRS 7, Financial instruments: Disclosures, was applied for the first time in the year under report. The standard replaces the bank-specific standard used to date, namely IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions. IFRS 7 redefines the disclosure of financial instruments and bundles the reporting rules together in one standard. Furthermore, the standard contains disclosure requirements in relation to risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

The amendments to IAS 1, resulting from the adoption of IFRS 7, with regard to the presentation of capital management objectives and methods can be found in Note 39.

IFRIC 9, Reassessment of Embedded Derivatives, deals with a potential separation obligation of embedded derivatives, provided the requirements for such a split are not met at settlement but in a later period. The first-time adoption of this interpretation brought about no changes to the existing procedure.

IFRIC 10, Interim Financial Reporting and Impairment, states that a company may not reverse any impairment losses on equity instruments recognised in an earlier interim period. IFRIC was adopted for the first time in the year under report. It has not resulted in any changes to the existing procedure.

The other standards or interpretations which were applied for the first time in 2007 had no material impact.

Standard IAS 1, Presentation of Financial Statements, which was amended in 2007, governs the improved presentation in the balance sheet; furthermore, the changes serve to promote greater harmonisation with the reporting rules of US-GAAP. This should have no material effects on our financial statements.

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. Due to the late endorsement in November 2007, we will not take the standard into consideration until the 2008 financial year. The adoption is unlikely to lead to any material changes.

IFRIC 11, IFRS 2, Group and Treasury Share Transactions, regulates the treatment of share-based remuneration within the entire Group. Interpretation will not be taken into consideration until the next financial year. As it stands, we do not anticipate any material effects from the adoption of the standard.

Other applications that are not yet obligatory in 2007 will not have any material effect on the Bank.

18 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

19 Cash Reserve

€ million	31.12.2007	31.12.2006
Cash and cash equivalents	2.0	2.4
Balances with central banks	330.3	433.9
Total	**332.3**	**436.3**

Balances held with central banks are held mainly with the Deutsche Bundesbank and are almost exclusively in euros. The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

20 Loans and Advances to Banks

€ million	31.12.2007	31.12.2006
Current accounts	722.1	521.8
Money market transactions	3,313.5	3,665.3
of which overnight money	0.4	0.0
of which term deposits	3,313.1	3,665.3
Other loans and advances	81.4	253.0
Total	**4,117.0**	**4,440.1**
of which loans and advances to domestic banks	1,382.3	1,716.0
of which loans and advances to foreign banks	2,734.7	2,724.1

The moderate decline in loans and advances to banks is primarily due to the increase in lending to our clients. Furthermore, funds were invested increasingly by our Global Markets division in the form of certificates of deposit.

21 Loans and Advances to Customers

€ million	31.12.2007	31.12.2006
Current accounts	1,651.1	1,092.8
Money market transactions	1,025.7	943.5
of which overnight money	279.8	237.5
of which term deposits	745.9	706.0
Loan accounts	1,562.5	1,122.0
Other loans and advances	33.6	14.8
Total	**4,272.9**	**3,173.1**
of which loans and advances to domestic customers	3,128.9	2,384.5
of which loans and advances to foreign customers	1,144.0	788.6

As in the previous year, the increase in loans and advances to customers highlights the growth in our credit business, not least with our newly acquired clients.

22 Net Loan Impairment and other Credit Risk Provisions

Net loan impairment and other credit risk provisions are made up as follows:

€ million	31.12.2007	31.12.2006
Impairment charges / recoveries for loans and advances	16.2	17.0
Other credit risk provisions	7.5	10.9
Net loan impairments and other credit risk provisions	**23.7**	**27.9**

Impairment provisions for loans and advances relate exclusively to charges/recoveries on loans and advances to customers.

Risk provisions for loans and advances developed as follows:

	Impairment provisions				Total	
	individually assessed		collectively assessed			
€ million	2007	2006	2007	2006	2007	2006
As at 1 January	11.7	21.1	5.3	5.0	17.0	26.1
Reversals	1.2	4.0	1.6	0.0	2.8	4.0
Utilisation	1.0	5.5	0.0	0.0	1.0	5.5
Additions	3.1	0.2	0.0	0.1	3.1	0.3
Currency translation/ transfers	-0.1	-0.1	0.0	0.2	-0.1	0.1
As at 31 December	**12.5**	**11.7**	**3.7**	**5.3**	**16.2**	**17.0**

Provisions for credit risks developed as follows:

	Other credit risk provisions				Total	
	individually assessed		collectively assessed			
€ million	2007	2006	2007	2006	2007	2006
As at 1 January	10.0	11.7	0.9	1.5	10.9	13.2
Reversals	3.9	3.0	0.0	0.4	3.9	3.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.5	1.2	0.0	0.0	0.5	1.2
Currency translation/ transfers	0.0	0.1	0.0	-0.2	0.0	-0.1
As at 31 December	**6.6**	**10.0**	**0.9**	**0.9**	**7.5**	**10.9**

23 Trading Assets

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities	6,241.9	3,978.9
of which:		
public-sector issuers	181.6	123.2
other issuers	6,060.3	3,855.7
of which:		
listed	2,976.8	2,047.7
unlisted	3,265.1	1,931.2
Equities and other non-fixed-income securities	479.4	859.0
of which:		
listed	478.5	858.8
unlisted	0.9	0.2
Tradable receivables	813.1	1,136.8
Positive market value of derivatives	1,860.6	1,905.8
of which:		
OTC-derivatives	1,311.8	1,326.4
exchange-traded derivatives	548.8	579.4
Reverse repos	214.6	342.5
Securities lending	827.2	821.0
Total	**10,436.8**	**9,044.0**

The sharp rise is primarily due to the purchase of certificates of deposit from other banks within the HSBC Group. Tradable receivables are recognised largely 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 34).

The item securities lending comprises funds we provided as collateral for borrowed securities (cf. Notes 30 and 59).

24 Financial Assets

Financial assets contain the Bank's strategic positions, which are broken down as follows:

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities and interest rate derivatives	886.1	929.6
of which:		
public-sector issuers	268.1	316.5
other issuers	618.0	613.1
of which:		
listed	834.5	864.6
unlisted	51.6	65.0
Equities	41.5	49.2
Investments	383.3	221.7
Promissory note loans	157.2	163.1
Interests in subsidiaries	100.1	74.0
Total	**1,568.2**	**1,437.6**

All financial assets are assigned to the available-for-sale category in accordance with IAS 39.

Financial assets include exchange-traded forward transactions in the amount of €0.3 million (2006: €0.6 million).

The difference between the fair value and amortised cost price is as follows:

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities	14.9	35.8
Equities	0.9	4.0
Investments	16.0	25.0
Promissory note loans	8.6	15.0
Interests in subsidiaries	43.4	32.2
Total	**83.8**	**112.0**

25 Interests in Associates

In the 2007 financial year, Trinkaus & Burkhardt increased its shareholding in SINO AG, Düsseldorf, to 26.59%. SINO AG is therefore recognised for the first time as an associated company consolidated at equity. The following table provides information on the development of interests in associates:

€ million	2007	2006
Book value as at 1 January	**1.5**	**0.0**
Additions	9.8	0.0
Share of results of financial year	5.4	2.5
Elimination of interim result	1.0	0.5
Dividend distribution	-2.5	-1.5
Book value as at 31 December	**15.2**	**1.5**

The book value of the publicly listed investments acquired this year amounts to €9.8 million; the market value of these investments is €11.1 million.

26 Investment Overview - Property, Plant and Equipment and Intangible Assets

€ million	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 1.1.2007	94.1	50.9	145.0	29.7
Increases	115.4	10.0	125.4	5.8
Reversals	0.0	5.1	5.1	0.0
Acquisition costs as at 31.12.2007	209.5	55.8	265.3	35.5
Depreciation as at 1.1.2007	32.5	32.0	64.5	20.4
Scheduled depreciation	1.3	7.2	8.5	2.8
Non-scheduled depreciation	0.1	0.0	0.1	0.0
Depreciation of reversals	0.0	4.1	4.1	0.0
Depreciation as at 31.12.2007	33.9	35.1	69.0	23.2
Carrying amount as at 31.12.2007	**175.6**	**20.7**	**196.3**	**12.3**
Carrying amount as at 31.12.2006	**61.5**	**18.9**	**80.4**	**9.3**

We reported for the first time in the year under report a property that is not mainly owner-occupied under land and property. This property was acquired for €115.2 million in December 2007 and will be marketed within the framework of a property fund.

As in the previous year, foreign currency translation did not affect property, plant and equipment values.

27 Income Tax Assets

€ million	31.12.2007	31.12.2006
Current income tax assets	54.8	2.5
Deferred income tax assets	0.0	0.0
Total	**54.8**	**2.5**

The receivables from current income taxes relate predominantly to domestic taxes.

28 Other Assets

Other assets of €77.3 million (2006: 68.6 million) consist mainly of excess cover from our CTA of €31.9 million (2006: €9.8 million), as well as other taxes of €4.9 million (2006: €3.8 million).

29 Subordinated Assets

The following overview shows the composition of our subordinated assets:

€ million	31.12.2007	31.12.2006
Loans and advances to customers	0.0	0.1
Bonds and other fixed-income securities	143.5	108.1
Profit-participation certificates	28.4	27.3
Total	**171.9**	**135.5**

30 Repurchase Agreements

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.

€ million	31.12.2007		31.12.2006	
Type of transaction	Market value of the transferred financial assets	Carrying amount of the associated financial liabilities	Market value of the transferred financial assets	Carrying amount of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.2
Securities lending transactions	25.7	0.0	78.5	206.6
Total	**25.7**	**0.0**	**78.5**	**206.8**

The following table provides an overview of the securities received, including the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

€ million	31.12.2007		31.12.2006	
Type of transaction	Fair value of the transferred financial assets	Carrying amount of the associated receivables	Fair value of the transferred financial assets	Carrying amount of the associated receivables
Repurchase agreements	243.6	214.6	364.6	342.5
of which may be sold or pledged	158.9		194.9	
of which are already sold or pledged	84.7		169.7	
Securities lending transactions	1,623.9	827.2	1,611.1	821.0
of which may be sold or pledged	1,036.4		924.8	
of which are already sold or pledged	587.5		686.3	
Total	**1,867.5**	**1,041.8**	**1,975.7**	**1,163.5**

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 59).

The relevant transactions were carried out at normal market conditions.

31 Deposits by Banks

€ million	31.12.2007	31.12.2006
Current accounts	611.2	549.5
Money market transactions	1,750.3	765.6
of which overnight money	603.2	136.5
of which term deposits	1,147.1	629.1
Other liabilities	171.2	180.6
Total	**2,532.7**	**1,495.7**
of which deposits by domestic banks	1,346.5	618.3
of which deposits by foreign banks	1,186.2	877.4

As at 31 December 2007, deposits by banks secured by charges on real property amounted to €20.5 million (2006: €21.5 million).

32 Customer Accounts

€ million	31.12.2007	31.12.2006
Current accounts	5,283.9	3,905.2
Money market transactions	4,523.4	4,527.6
of which overnight money	607.1	1,238.5
of which term deposits	3,916.3	3,289.1
Savings deposits	13.2	13.6
Other liabilities	462.7	415.0
Total	**10,283.2**	**8,861.4**
of which liabilities to domestic customers	7,462.8	6,407.7
of which liabilities to foreign customers	2,820.4	2,453.7

The increase in customer accounts is the result essentially of a strong inflow of funds from institutional clients and investment funds.

33 Certificated Liabilities

Securitised liabilities relate to bond issues in the amount of €10.0 million (2006: €29.8 million).

34 Trading Liabilities

€ million	31.12.2007	31.12.2006
Negative market value of derivatives	1,642.0	1,664.3
Discount certificates, promissory note loans, bonds and warrants	4,291.8	4,692.1
Delivery obligations from securities sold short	554.6	120.4
Repurchase transactions	0.0	0.2
Securities lending transactions	0.0	206.6
Total	**6,488.4**	**6,683.6**

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 accordingly recognised as trading liabilities pursuant to IAS 39, and are valued at their fair value. The decline in the negative market value of the derivatives corresponds with the falling positive market value of the derivatives (cf. Note 23).

Funds that we received as security pledged for borrowed securities are reported under securities lending transactions.

35 Provisions

€ million	As at 1.1.2007	Utilisation	Reversals	Additions	Transfers	Actuarial result	As at 31.12.2007
Provisions related to human resources	58.8	45.5	0.8	59.6	-8.2	0.0	63.9
Provisions for pensions and similar obligations	10.4	4.8	0.0	0.7	22.1	-21.3	7.1
Provisions for credit risks	10.9	0.0	3.9	0.5	0.0	0.0	7.5
Provisions for other taxes	3.0	0.2	0.0	0.0	0.0	0.0	2.8
Other provisions	29.9	4.5	5.1	10.7	0.1	0.0	31.1
Total provisions	**113.0**	**55.0**	**9.8**	**71.5**	**14.0**	**-21.3**	**112.4**

The additions to plan assets and the change in the plan surplus are shown in the transfers column. Obligations from performance-related remuneration are essentially reported under provisions related to human resources.

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% and 7.5% interest, respectively.

Additionally, 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 €4.0 million in the year under report (2006: €3.7 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 %	31.12.2007	31.12.2006
Long-term base rate of interest	5.5	4.5
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 higher yields from first-class fixed-interest industrial bonds, the base interest rate was increased to 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 2008 as there were no major deviations between the expected and actual returns in the funds in the year under report.

The provision for pensions and similar obligations also includes the obligations for semi-retirement, early retirement and anniversary payments.

Development of Pension Obligations

€ million	2007	2006
Pension obligations as at 1 January	**197.2**	**202.8**
Service cost	4.3	7.4
Interest expense	8.8	7.4
Pensions paid	-10.6	-9.7
Transfers and others	0.0	-0.2
Change in actuarial gains and losses	-22.8	-10.5
Pension obligations as at 31 December	**176.9**	**197.2**

Breakdown of Pension Obligations

€ million	2007	2006	2005	2004	2003
Non-funded pension obligations	**4.3**	**4.8**	**4.8**	**172.9**	**147.3**
Funded pension obligations					
Present value of pension obligations	172.6	192.4	198.0	0.0	0.0
Fair value of plan assets	201.7	196.6	181.6	0.0	0.0
Balance	-29.1	-4.2	16.4	0.0	0.0
of which plan shortfall	**2.8**	**5.6**	**16.4**	**0.0**	**0.0**
of which plan excess	31.9	9.8	0.0	0.0	0.0
Total pension obligations	**7.1**	**10.4**	**21.2**	**172.9**	**147.3**
of which actuarial gains and losses					
from plan assets	-1.1	0.4	1.2	0.0	0.0
from plan obligations	-16.2	-39.0	-49.5	-25.9	-7.9

Development of the Fair Value of Plan Assets

€ million	2007	2006
Fair value of plan assets as of 1 January	**196.6**	**181.6**
Additions/withdrawals	-5.8	5.4
Estimated income from the plan assets	12.4	10.4
Change in actuarial gains and losses	-1.5	-0.8
Fair value of plan assets as of 31 December	**201.7**	**196.6**

The actual income from plan assets in the year under review amounted to €10.9 million (2006: €9.6 million). It is expected that no contributions will be paid into the plan in 2008, as in 2007.

Breakdown of the Fair Value of Plan Assets

€ million	2007	2006
Bonds and other fixed-income securities	96.4	110.3
Equities	49.0	45.5
Investment funds	29.3	17.3
Reinsurance claims from life insurances	12.7	11.3
Closed-end property funds	4.0	4.0
Other	10.3	8.2
Fair value of plan assets as of 31 December	**201.7**	**196.6**

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to €11.7 million after taxes (2006: €23.3 million). The decline is the result above all of the increase in the long-term interest rate calculated the previous year.

The provisions for risks from the credit business include provisions for anticipated losses in connection with endorsement liabilities, sureties, acceptances and credit commitments. They are part of the net loan impairment provisions (cf. Note 22).

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 year.

Other provisions include above all provisions for anticipated losses and provisions for contingent liabilities.

36 Income Tax Liabilities

€ million	31.12.2007	31.12.2006
Current income tax liabilities	48.4	25.7
Deferred income tax liabilities	57.8	36.3
Total	**106.2**	**62.0**

Current income tax liabilities include provisions for income taxes to be paid to the fiscal authorities on the basis of the tax accounts of the fully consolidated Group companies; provisions for any income taxes to be paid as a result of current and future audits are also reported under this item.

The deferred taxes are our future tax burdens or relief formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 49).

As in the previous year, deferred tax refund claims are offset against income tax liabilities if the prerequisites for offsetting exist.

The deferred income tax assets and liabilities are attributable to the following items:

€ million	31.12.2007	31.12.2006	Change
	As shown in the balance sheet		
Trading portfolio*	50.1	24.1	26.0
Share-based payments	6.1	3.1	3.0
Financial assets	4.8	3.9	0.9
Net loan impairment and other credit risk provisions	3.6	3.6	0.0
Intangible assets	0.4	0.0	0.4
Joint ventures	0.0	6.0	-6.0
Buildings	-0.9	-1.0	0.1
Provisions	-3.5	-3.3	-0.2
Pensions	-5.0	-8.2	3.2
Recognised in the income statement	**55.6**	**28.2**	**27.4**
Financial assets	7.6	23.4	-15.8
Pensions	-5.4	-15.3	9.9
With effect on equity	**2.2**	**8.1**	**-5.9**
Deferred tax liabilities	**57.8**	**36.3**	**21.5**

*Balance from measurement differences in all trading activities

The reduction in tax rates due to the 2008 corporate tax reform must be incorporated when calculating the deferred taxes (cf. Note 49). Financial instruments, whose fluctuations are recognised in shareholders' equity, yield a tax credit of €2.0 million. The additional tax burden for the actuarial result from the pensions is €1.4 million.

37 Other Liabilities

€ million	31.12.2007	31.12.2006
Liabilities from other taxes	29.0	28.1
Deferred income	24.7	12.2
Accrued interest on		
subordinated liabilities	8.3	8.1
profit-participation certificates	7.4	3.8
Other	40.8	53.2
Total	**110.2**	**105.4**

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with clients.

38 Subordinated Capital

€ million	31.12.2007	31.12.2006
Subordinated liabilities (promissory note loans, bonds)	322.9	304.8
Profit participation certificates	135.8	135.8
Total	**458.7**	**440.6**

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 €250.0 million. In order to strengthen liable equity further, the Bank issued new registered profit participation certificates in the amount of €100.0 million in September 2006. No further 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 & Burkhardt AG 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 & Burkhardt AG if there is a change in the tax framework, subject to two years' notice of termination.

Subordinated capital of €399.8 million (2006: €434.8 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 2007 financial year, interest payable amounts to €15.6 million (2006: €13.9 million) on subordinated liabilities and to €7.4 million (2006: €3.8 million) on profit participation certificates.

Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€ million) 31.12.2007	Nominal amount (€ million) 31.12.2006
5% or lower	128.2	133.2
Over 5% up to 8%	169.7	150.0
Fixed rates	297.9	283.2
Variable rates	25.0	25.0
Total	**322.9**	**308.2**

Repayment	Nominal amount (€ million) 31.12.2007	Nominal amount (€ million) 31.12.2006
Up to 1 year	0.0	15.2
Over 1 year up to 5 years	69.5	69.6
Over 5 years	253.4	223.4
Total	**322.9**	**308.2**

39 Shareholders' Equity

As at 31 December 2007, subscribed capital was unchanged at €70.0 million. As before, this is divided into 26,100,000 no-par value shares. The consideration of share-based payments settled in the form of equity instruments increased the capital reserves by €1.5 million, which we reported at €212.9 million as at 31 December 2007.

Subject to approval by the Supervisory Board, the Management Board is authorised to increase the share capital by a maximum of €23.0 million up to 31 May 2008, through one or more issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is subject to a conditional capital increase of up to €13.5 million by means of issuing no-par value bearer shares. The conditional capital increase shall only be executed to the extent that the holders of conversion or option rights, issued no later than 31 May 2008 on the basis of the authorisation resolution by the Annual General Meeting of 3 June 2003, exercise their conversion or option rights (conditional capital).

Valuation Reserve for Financial Instruments
The change in the valuation reserve for financial instruments, as part of retained earnings, was as follows:

€ million	2007	2006
Net valuation reserve as at 1 January	**88.6**	**93.9**
Disposals (gross)	-6.3	2.4
Market fluctuations (gross)	-25.8	-23.3
Impairments (gross)	3.8	1.1
Deferred taxes	15.9	14.5
Net valuation reserve as at 31 December	**76.2**	**88.6**

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 subscribed capital plus the capital reserves and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominantly 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 the 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 as at year end are as follows:

€ million	2007	2006
Core capital (Tier I capital)		
Consolidated, core capital as disclosed on the balance sheet	670	651
Intangible assets	-60	-62
Total core capital	**610**	**589**
Supplementary capital (Tier II capital)		
Subordinated liabilities	297	296
Profit-participation certificates	100	136
Unrealised profits from listed securities	35	23
Consolidation	-2	-15
Total supplementary capital	**430**	**440**
Adjustment items	-10	0
Regulatory capital excluding ancillary capital	**1,030**	**1,029**
Ancillary capital (Tier III)	**0**	**2**
Total regulatory capital	**1,030**	**1,031**

€ million	2007	2006
Risk-weighted assets	7,356	6,719
Market risk equivalent	2,250	1,675
Risk exposure	**9,606**	**8,394**
Core capital (Tier I) ratio relative to risk exposure	**6.4**	**7.0**
Equity ratio (Tier I + Tier II + Tier III) relative to risk exposure	**10.7**	**12.3**

Risk-weighted assets grew considerably in 2007 while positions exposed to market risk posted a moderate increase. Regulatory capital was virtually unchanged. Thanks to this capitalisation, we not only have exceeded the minimum capital requirement expected by the banking supervisory authority, but are also in a position to further leverage growth.

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 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%.

We pay special attention to the management of shareholders' equity, above all to an appropriate return on equity, so that we do not necessarily become consciously involved in low-margin business. Nevertheless, the items for mandatory inclusion according to Liquidity Principle I have increased by a good 14% over the previous year. This increase is a result of our consistent growth path and the gradual acquisition of new clients enabling us to increasingly take on a core bank function also for major addresses. Our loan portfolio has therefore grown considerably, despite the unchanged, very strict demands placed on the credit quality requirements. We have offset this growth path in recent years by significantly increasing liable capital. We achieved this on the one hand by not distributing net profit for the year in full, always allocating to our reserves instead. On the other, we have gradually increased our subordinated capital including profit-participation certificates.

An analysis of the economic capital requirement complements this 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 risk cushions in our business, in conjunction with addressing the Bank's risk-bearing capacity even in extreme stress scenarios. The economic capital requirements for our Bank were calculated in full for the first time in 2006, although the theoretical methods for quantifying risk have developed to varying degrees and the statistical database features different qualities, so that an aggregation of the risk is not quite without its problems. We refined this calculation in 2007 and will follow this practice at least once a year in the future. All in all, we want to ensure there is a minimum 99.95% probability that the risk cushion exceeds the risk exposure.

40 Measurement Classes

Assets as at 31.12.2007 in € million					
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		332.3			332.3
Loans and advances to banks*	4,117.0				4,117.0
Loans and advances to customers *	4,256.7				4,256.7
Trading assets			10,436.8		10,436.8
Financial assets		56.5	0.3	1,511.4	1,568.2
Other financial instruments	0.9	5.6			6.5
Total financial instruments	**8,374.6**	**394.4**	**10,437.1**	**1,511.4**	**20,717.5**
Other assets not included under IAS 39					349.4
Total assets					**21,066.9**

Liabilities as at 31.12.2007 in € million			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,532.7		2,532.7
Customer accounts**	10,283.2		10,283.2
Certificated liabilities	10.0		10.0
Trading liabilities		6,488.4	6,488.4
Subordinated capital	458.7		458.7
Other financial instruments	47.9		47.9
Total financial instruments	**13,332.5**	**6,488.4**	**19,820.9**
Other liabilities, not included under IAS 39			280.9
Shareholders' equity			965.1
Total assets			**21,066.9**

* Impairment provisions for loans and advances are reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our clients' deposits are used in part internally to refinance our trading divisions

Assets as at 31.12.2006 in € million					
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		436.3			436.3
Loans and advances to banks*	4,440.1				4,440.1
Loans and advances to customers *	3,156.1				3,156.1
Trading assets			9,044.0		9,044.0
Financial assets		41.3	0.6	1,395.7	1,437.6
Other financial instruments	28.9	4.8			33.7
Total financial instruments	**7,625.1**	**482.4**	**9,044.6**	**1,395.7**	**18,547.8**
Other assets not included under IAS 39					128.6
Total assets					**18,676.4**

Liabilities as at 31.12.2006 in € million			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial obligations	Held-for-trading	
Deposits by banks	1,495.7		1,495.7
Customer accounts**	8,861.4		8,861.4
Certificated liabilities	29.8		29.8
Trading liabilities		6,683.6	6,683.6
Subordinated capital	440.6		440.6
Other financial instruments	58.3		58.3
Total financial instruments	**10,885.8**	**6,683.6**	**17,569.4**
Other liabilities, not included under IAS 39			222.1
Shareholders' equity			884,9
Total assets			**18,676,4**

* Impairment provisions for loans and advances are reported by means of direct deduction from loans and advances to banks or from loans and advances to customers

** Our clients' deposits are used in part internally to refinance our trading divisions

Notes to the Consolidated Income statement

41 Net Interest Income

€ million	2007	2006
Interest income	**448.4**	**285.1**
from loans and advances to banks	227.2	111.2
money market transactions	211.1	97.7
other interest-bearing receivables	16.1	13.5
from loans and advances to customers	155.7	112.2
money market transactions	50.1	43.1
other interest-bearing receivables	105.6	69.1
from financial assets	65.5	61.7
interest income	55.7	51.7
dividend income	1.6	1.0
income on investments	8.2	9.0
Interest expenses	**338.4**	**196.5**
from deposits by banks	36.7	17.9
money market transactions	29.4	12.7
other interest-bearing deposits	7.3	5.2
from customer accounts	276.6	159.2
money market transactions	153.4	89.5
other interest-bearing deposits	123.2	69.7
from securitised receivables	2.1	1.7
from subordinated capital	23.0	17.7
Net interest income	110.0	88.6

During the year under report, we succeeded in significantly increasing net interest income by €21.4 million or 24.2% to €110.0 million. In addition to improved margins achieved on transactions with clients in the lending business, the higher net interest income is attributable above all to the increase in client deposits, most of which we invested in the interbank market. Furthermore, net interest income from financial assets–including income on investments–rose by €3.8 million or 6.2% to €65.5 million, thus remaining at a favourably high level.

During the period under review, interest income from financial assets subject to impairment was recognised in the amount of €2.4 million (2006: €1.1 million).

42 Share of Profit in Associates

The share of profit in associates climbed by €3.9 million to €6.4 million (2006: €2.5 million) as a result of our joint venture with International Transaction Services GmbH and our interest in SINO AG. SINO AG was reported for the first time in the year under report as an associated company consolidated at equity (cf. Note 25).

43 Net Loan Impairment and other Credit Risk Provisions

€ million	2007	2006
Additions	3.6	1.5
Reversals	6.7	7.4
Direct write-offs	0.0	1.1
Recoveries on loans and advances previously written off	0.4	0.4
Total	**-3.5**	**-5.2**

Although the year under report was defined by significant distortions in the markets for structured credit products, additions to net loan impairment provisions (customer lending) were once again lower than the reversals. We attribute this success largely to our tried-and-tested, conservative credit risk management.

44 Net Fee Income

€ million	2007	2006
Securities transactions	203.7	182.1
Foreign exchange transactions and derivatives	48.2	47.0
Issuing and structuring activities	19.8	12.3
Foreign business	13.0	13.7
Corporate finance	9.1	3.7
Payments	5.6	5.2
Lending	4.3	3.8
Real estate business	0.7	1.7
Other fee-based business	13.7	12.3
Total	**318.1**	**281.8**

Net fee income in the year under report was up by €36.3 million or 12.9% to €318.1 million. Accounting for 59.4% of the Bank's operating profit, it remains a crucial factor to the Bank's success. This positive development is due primarily to the continued rise in the number of clients in the Corporate Client and Private Banking business. The continuous improvement in our cooperation with the HSBC Group has enabled us to provide an extensive advisory service with a greater product range and reliable services, as well as offer very competitive prices for large-volume transactions.

Overall, net fee income exceeded net interest income by a factor of 2.9 (2006: 3.2).

Net fee income includes fee expenses totalling €24.2 million (2006: €17.5 million) for the settlement of securities transactions by our joint venture ITS.

Trust activities performed by the Group on its own behalf, but for the account of third parties, are not recognised in the balance sheet. Net fee income includes €0.2 million in fee income from trust activities (2006: 0.3 million). Fee expenses amounted to €0.0 million (2006: €0.0).

45 Net Trading Income

€ million	2007	2006
Equities and equity/index derivatives	79.0	80.1
Bonds and interest rate derivates	10.9	13.1
Foreign exchange	10.2	10.8
Total	**100.1**	**104.0**

At €100.1 million (2006: €104.0 million) net trading income continued to make a major contribution to the Bank's operative results. This sum again comprises trade-related net interest income. Notwithstanding the difficult market environment on the one hand, and the very high targets of the previous year on the other, our expectations were exceeded significantly.

46 Total Administrative Expenses

€ million	2007	2006
Staff expenses	203.3	189.7
Wages and salaries	181.0	164.8
Social security costs	17.2	16.0
Expenses for post-employment benefits	5.1	8.9
Other administrative expenses	118.8	98.6
Depreciation of property, plant and equipment and of intangible assets	11.3	10.3
Total	**333.4**	**298.6**

Other administrative expenses include €12.5 million (2006: €8.0 million) in expenses arising from lease payments.

The rise in other administrative expenses was due mainly to higher IT investments and increased costs incurred for implementing legal requirements. Once again, our cost income ratio of 62.0% in the year under report (2006: 61.8%) was considerably lower than our target range of 65-70%. This again demonstrates that the sharp rise in total administrative expenses is justified by more than proportionately higher returns.

The breakdown of expenses for retirement pensions and other employee benefits is as follows:

€ million	2007	2006
Expenses for defined benefit plans	0.7	4.4
of which current service costs	4.3	7.4
of which interest expenses	8.8	7.4
of which estimated income from the plan assets	-12.4	-10.4
Expenses for defined contribution plans	4.0	3.7
Expenses for retirement pensions	0.4	0.8
Total	**5.1**	**8.9**

47 Net Income from Financial Assets

On balance, the sale of financial assets–investment funds in particular–generated realised gains of €4.0 million (€3.1 million). These are offset by impairments on long-term positions totalling €3.8 million. Furthermore, the result from the hedging of the Bank's strategic interest-rate exposure with derivatives that do not fulfil the hedge criteria of IAS 39 is reported in net income from financial assets.

48 Net Other Income/Expenses

€ million	2007	2006
Other operating income	11.0	6.4
Other operating expenses	9.7	7.4
Other operating income/expenses	**1.3**	**-1.0**
Other income	0.1	1.0
Other expenses	0.2	0.5
Other net income	**-0.1**	**0.5**
Net other income/expenses	**1.2**	**-0.5**

Net other operating income/expenses essentially include €5.9 million (2006: €2.0 million) from the writing back of other provisions and €1.7 million (2006: €1.5 million) in rental income, as well as other income, for example from property management, of €2.0 million (€2.9 million). However, this income is more than offset by other operating expenses, in particular for additions to other provisions.

49 Income Taxes

€ million	2007	2006
Current taxes	35.9	74.9
of which off-period	0.0	3.0
Deferred taxes from the change in limited valuation differences	42.4	0.0
Deferred taxes from changes to the tax rates	-14.9	0.0
Total	**63.4**	**74.9**

The corporation tax rate was unchanged at 26.4% in 2007 as well. Taking trade income tax into account, combined taxes on income for 2007 are unchanged at 40.4%.

In contrast, we had to use the lower tax rate (as a result of the 2008 corporate tax reform) for the purpose of calculating deferred taxes. The reform results in a corporate tax rate of 15.8% as of 1 January 2008 and combined taxes on income of 32.0%. The reduced tax expenses (having taken the 2008 corporate tax reform into consideration) amounts to €14.9 million in the year under report.

Income subject to Luxembourg taxation is taxed at an unchanged rate of 29.6%.

The following table shows the relationship between income taxes derived from profit before taxes and the actual income tax reported.

€ million	2007	2006
Profit before taxes	207.8	189.5
Income tax (%)	40.4	40.4
Derived income tax on profit before taxes	**84.0**	**76.5**
Deferred tax effect from changes to the tax rates	-14.9	0.0
Tax rate differential on income proportions subject to taxation outside of Germany	-3.5	-2.4
Effect from tax-exempt income and non-tax deductible expenses in accordance with section 8 b KStG	-3.3	-6.3
Taxes for previous years	0.0	3.0
Miscellaneous	1.1	4.1
Reported income taxes	**63.4**	**74.9**

50 Calculation of Operating Profit

€ million	2007	2006	Change € million	in %
Interest income	448.4	285.1	163.3	57.3
Interest expenses	338.4	196.5	141.9	72.2
Net interest income	110.0	88.6	21.4	24.2
Net loan impairment and other credit risk provisions	-3.5	-5.2	1.7	-32.7
Net interest income after loan provisions	113.5	93.8	19.7	21.0
Share of profit in associates	6.4	2.5	3.9	> 100.0
Fee income	620.7	520.4	100.3	19.3
Fee expenses	302.6	238.6	64.0	26.8
Net fee income	318.1	281.8	36.3	12.9
Net trading income	100.1	104.0	-3.9	-3.8
Staff expenses	203.3	189.7	13.6	7.2
Other administrative expenses	130.1	108.9	21.2	19.5
Administrative expenses	333.4	298.6	34.8	11.7
Net other operating profit/expenses	1.3	-1.0	2.3	> 100.0
Operating profit	**206.0**	**182.5**	**23.5**	**12.9**
Net income from financial assets	1.9	6.5	-4.6	-70.8
Other net income	-0.1	0.5	-0.6	> 100.0
Profit before taxes	**207.8**	**189.5**	**18.3**	**9.7**
Income taxes	63.4	74.9	-11.5	-15.4
Net profit for the year	**144.4**	**114.6**	**29.8**	**26.0**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (Note 48). A breakdown of operating profit by business segment is shown in Segment Reporting (Note 53).

51 Income Statement by Measurement Category

The following overview includes net profit or net loss for every IAS 39 measurement category of financial assets and liabilities. Net profits/losses are a net earnings indicator comprising on the one hand changes in market value recognised in the income statement, disposal of financial instruments, impairments and currency translation effects if necessary. On the other, interest income/expenses as well as fee income/expenses are included in every measurement category.

Measurement category 31 December 2007 € million	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale portfolio	Other financial liabilities	Other	Total
Net interest income							
Interest income	374.4	8.5		65.5			448.4
Interest expenses					-338.4		-338.4
Net fee income							
Fee income	4.5					616.2	620.7
Fee expenses	-0.3					-302.3	-302.6
Net trading income			100.1				100.1
Net income from financial assets			0.9	4.8			5.7
Impairments							
Net loan impairment provisions	1.9					1.6	3.5
Net income from financial assets				-3.8			-3.8
Total	**380.5**	**8.5**	**101.0**	**66.5**	**-338.4**	**315.5**	**533.6**

Measurement category 31 December 2006 € million	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale portfolio	Other financial liabilities	Other	Total
Net interest income							
Interest income	218.5	4.9		61.7			285.1
Interest expenses					-196.5		-196.5
Net fee income							
Fee income	5.2					515.2	520.4
Fee expenses	-1.4					-237.2	-238.6
Net trading income			104.0				104.0
Net income from financial assets			1.6	6.0			7.6
Impairments							
Net loan impairment provisions	3.0					2.2	5.2
Net income from financial assets				-1.1			-1.1
Total	**225.3**	**4.9**	**105.6**	**66.6**	**-196.5**	**280.2**	**486.1**

Other Disclosures

52 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, net trading income and the balance of other operating income and expenses, minus total administrative expenses and risk provisions.

The summary item Other adjustments (net) in the cash flow statement essentially comprises the valuation results of the financial instruments in the trading portfolio at the reporting date, net additions to deferred taxes, the change in tax rebate claims as well as income tax paid, interest and dividends received minus interest paid.

Cash and Cash Equivalents
As in the previous year, the cash and cash equivalents of €332.3 million (2006: 436.3 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 rate changes were to be taken into consideration.

Cash Flows 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 €144.4 million (2006: €114.6 million) is the input figure for the cash flow statement. The gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to €129.0 million (2006: €180.1 million). The cash flows from operating activities also take into account changes in funds employed in operations.

Cash Flows from Investing Activities
Spending on the acquisition of property, plant and equipment totalled €131.3 million in the 2007 financial year (2006: €15.2 million), accounted for in particular by the purchase of a property in Brisbane, Australia, which should be marketed within the framework of a property fund. The sale of property, plant and equipment realised €1.0 million (€2006: 1.4 million) for the Group. In the 2007 financial year, the sale and purchase of equity-linked financial investment instruments realised a net outgoing payment of €15 million (2006: €-0.9 million).

Cash Flows from Financing Activities
Cash flows from financing activities includes the dividend of €65.3 million for the 2006 financial year (2006: €65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report.

53 Segment Reporting

The IAS 14 segment reporting prepared by HSBC Trinkaus & Burkhardt 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 a company.

The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits. The MIS also serves as one of the Bank’s central controlling and monitoring tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis. For this reason, we have chosen to define these divisions as the primary segments.

Hence, the segment reporting covers the following business areas, which are essentially structured to meet the needs of our clients.

Private Banking
HSBC Trinkaus & Burkhardt's Private Banking business division offers clients 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 & Burkhardt 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 and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients
HSBC Trinkaus & Burkhardt provides its institutional clients, namely fund-gathering institutions, with substantial investment needs (for example, insurance companies, pension and investment funds and also banks) with a 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
Our Global Markets division deals with the transactions in securities, financial instruments, foreign exchange and derivatives that HSBC Trinkaus & Burkhardt 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 profits 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 will also report the earnings contributions achieved from securities processing for financial services providers. It also includes adjustments to the consolidated results.

Segment reporting by business division for 2006 and 2007 is as follows:

€ million	Year	Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income	2007	14.1	40.1	3.9	3.4	48.5	110.0
	2006	11.7	32.7	1.8	3.7	38.7	88.6
Net loan impairment and other credit risk provisions	2007	1.1	5.2	0.5	0.1	-10.4	-3.5
	2006	1.0	4.7	0.2	0.0	-11.1	-5.2
Net interest income after loan impairment and other credit risk provisions	2007	13.0	34.9	3.4	3.3	58.9	113.5
	2006	10.7	28.0	1.6	3.7	49.8	93.8
Share of profit in associates	2007					6.4	6.4
	2006					2.5	2.5
Net fee income	2007	91.9	82.7	141.2	13.3	-11.0	318.1
	2006	80.2	77.6	122.6	7.2	-5.8	281.8
Net trading income	2007		-0.2	-1.9	98.2	4.0	100.1
	2006		-0.4	4.3	88.4	11.7	104.0
Income after impairment and other credit risk provisions	2007	104.9	117.4	142.7	114.8	58.3	538.1
	2006	90.9	105.2	128.5	99.3	58.2	482.1
Administrative expenses	2007	62.7	71.3	83.6	50.3	65.5	333.4
	2006	53.9	63.5	72.2	42.7	66.3	298.6
Net other operating profit/ expenses	2007					1.3	1.3
	2006					-1.0	-1.0
Operating profit	**2007**	**42.2**	**46.1**	**59.1**	**64.5**	**-5.9**	**206.0**
	2006	**37.0**	**41.7**	**56.3**	**56.6**	**-9.1**	**182.5**
Net income from financial assets	2007					1.9	1.9
	2006					6.5	6.5
Other net income	2007					-0.1	-0.1
	2006					0.5	0.5
Profit before taxes	2007	42.2	46.1	59.1	64.5	-4.1	207.8
	2006	37.0	41.7	56.3	56.6	-2.1	189.5
% change on previous year		**14.1**	**10.6**	**5.0**	**14.0**		**9.7**

As seen in the previous two years, all four segments of the Bank succeeded in further expanding their year-on-year results in 2007. This development is particularly gratifying against the backdrop of the subprime crisis on the credit and financial markets.

The Private Banking segment was particularly successful, recording the highest percentage improvement in results. The significant growth in the volume of private clients under management, including our clients' current account balances, led to a considerable year-on-year rise in income earned in the securities business with equities and bonds, as well as in net interest income.

Net interest income from the deposit-taking business also rose in the Corporate Client business, whilst continuing margin pressure resulted in the stagnation of the contribution from the credit business, despite increased volume. We also achieved a significant increase in fee income in our Corporate Client business, especially in corporate finance transactions.

Of all four segments, the Institutional Clients segment made the greatest contribution to the Bank's results; this segment benefited in particular from the highly successful asset management and equities business. Within this context, the share of products the Bank procures from HSBC Group is rising steadily.

The result from the Global Markets business also developed very favourably. In addition to the particularly successful equity derivatives trading business, money market and foreign exchange trading also posted considerable increases in income, while equity and fixed-income trading was unable to repeat the high level of income achieved the year before. The issue of retail products, such as warrants and certificates, within the scope of our market retail derivatives contributed substantially to this very successful business performance.

One of the key reasons behind the sharp rise in administrative expenses across the entire Bank compared with the previous year was the higher costs brought about by the considerable increase in staff levels, which was fundamentally necessary for our expansive business development. There were also the effects of the new regulatory requirements such as the implementation of MiFID and Basel II, and the expansion of information technology. Similarly, the increase in revenues resulted in higher provisions for performance-related remuneration.

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 allocated to the Central Divisions. Wherever possible, total 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.

	Year	Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Con-solidation	Total	Adjust-ments	Values as at balance sheet date
Cost:income ratio in %	2007	59.2	58.2	58.4	43.8		62.0		62.0
	2006	58.7	57.8	56.1	43.0		61.8		61.8
Assets* in € million	2007	722.0	2,385.0	1,318.0	4,210.5	11,195.3	19,830.8	1,236.1	21,066.9
	2006	721.0	1,861.0	1,150.7	4,540.1	8,200.5	16,473.3	2,203.1	18,676.4
Liabilities* in € million	2007	3,880.0	3,233.0	1,359.4	1,725.4	8,448.2	18,646.0	668.3	19,314.3
	2006	2,803.0	3,001.0	1,069.3	1,968.0	6,648.6	15,489.9	1,577.6	17,066.7
Items for mandatory inclusion* in € million	2007	494.7	3,216.6	616.5	684.4	4,236.8	9,249.0	357.0	9,606.0
	2006	469.7	2,542.6	514.5	642.9	3,811.3	7,981.0	413.0	8,394.0
Attributable shareholders' equity* in € million	2007	129.6	347.3	139.3	144.8	96.8	857.8	107.3	965.1
	2006	139.2	258.1	98.3	95.2	76.6	667.4	217.5	884.9
Staff	2007	207	198	204	95	1,124	1,828		1,828
	2006	193	180	202	77	967	1,619		1,619
Return on equity before taxes (%)	2007	32.6	13.3	42.4	44.6		24.2		
	2006	30.2	14.5	44.6	41.5		23.9		

*Annual average

Assets, liabilities and items for mandatory inclusion are based on the average values of the management information system (MIS). 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 administrative expenses to income before risk provisioning. This ratio is virtually unchanged in the Private Banking and Corporate Clients segments. The cost:income ratios of the Institutional Clients and Global Markets segments deteriorated slightly as their costs exceeded 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 MIS-specific assignment of customers to each segment.

The rise in loans and advances to customers in the Corporate Clients and Institutional Clients segments was accompanied by the expansion of their items for mandatory inclusion. We saw a slight increase in the items for mandatory inclusion in Private Banking and Global Markets.

However, in line with the development of operating profit, the return on equity in Global Markets and Private Banking improved further. The return on equity in the Institutional Clients and Corporate Clients segments was down slightly.

The secondary segment reporting criterion is allocation to regions as determined by the country of incorporation of the Group company concerned. This reveals the following picture of our business activities.

€ million	Year	Germany	Luxembourg	Remainder	Consolidation	Total
Net interest income	2007	95.7	14.2	0.1		110.0
	2006	78.9	9.7	0.0		88.6
Loan impairment and other credit risk provisions	2007	-1.3	-2.2			-3.5
	2006	-6.0	0.8			-5.2
Share of profit in associates	2007	6.4				6.4
	2006	2.5				2.5
Net fee income	2007	289.0	24.9	4.2		318.1
	2006	257.8	21.0	3.0		281.8
Net trading income	2007	97.7	2.4			100.1
	2006	100.1	3.9			104.0
Administrative expenses	2007	314.9	17.7	0.8		333.4
	2006	282.1	15.7	0.8		298.6
Profit before taxes	2007	177.4	26.9	3.5		207.8
	2006	169.3	17.9	2.3		189.5
Cost:income ratio in %	2007	64.1	41.7	17.9		62.0
	2006	63.3	45.6	24.8		61.8
Items for mandatory inclusion	31.12.2007	9,225.0	676.0	0.0	-295.0	9,606.0
	31.12.2006	8,077.0	627.0	1.0	-311.0	8,394.0
Total assets	31.12.2007	19,549.8	2,110.1	3.8	-596.8	21,066.9
	31.12.2006	17,217.8	2,164.4	2.6	-708.4	18,676.4

54 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 4.

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 reserve, 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:

€ million	31.12.2007		31.12.2006	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	6.5	6.5	33.7	33.7

€ million	31.12.2007		31.12.2006	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,532.7	2,531.8	1,495.7	1,497.2
Customer accounts (from the measurement of long-term promissory note loans borrowed)	10,283.2	10,278.0	8,861.4	8,864.8
Certificated liabilities	10.0	9.4	29.8	29.7
Subordinated capital	458.7	447.2	440.6	444.0
Other financial instruments	47.9	47.9	58.3	58.3

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.

€ million	Book value	
	31.12.2007	31.12.2006
Partnerships	19.1	15.6
Holdings in unlisted public limited companies	37.4	25.7
Total	**56.5**	**41.3**

During the year under report, partnerships of €0.1 million were disposed of. The Bank has no intentions at present to dispose of further partnerships or unlisted public limited companies.

The following overview lists items measured at market value on the basis of the method used to calculate the fair value.

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2007 in € million		observed parameters	unobservable parameters		
Trading assets	1,380.3	9,056.3	0.2	0.0	10,436.8
Financial assets	637.2	871.5	3.0	56.5	1,568.2
Trading liabilities	961.2	5,454.1	73.1	0.0	6,488.4

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2006 in € million		observed parameters	unobservable parameters		
Trading assets	1,658.0	7,386.0	0.0	0.0	9,044.0
Financial assets	528.0	868.3	0.0	41.3	1,437.6
Trading liabilities	479.3	6,195.5	8.8	0.0	6,683.6

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to €1.5 million (2006: €2.5 million). A 25% change in the unobservable parameters would lead to a €0.3 million (2006: €0.3 million) change in the market value.

55 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:

€ million	2007	2006
As at 1 January	**5.0**	**7.5**
New business	2.1	2.5
Day-1 profit or loss recognised in the income statement	-3.6	-5.0
of which positions closed out	-3.6	-4.5
of which matured transactions	0.0	-0.5
of which observable market parameters	0.0	0.0
As at 31 December	**3.5**	**5.0**

* A day-1 profit or loss occurs when the price paid for financial assets not traded on an active market (and hence the fair price at the time of initial measurement) is not identical to the fair value calculated by means of a measurement model within the scope of the subsequent measurement.

56 Holdings in Foreign Currency

As at 31 December 2007, assets denominated in a foreign currency were valued at €2,554.7 million (2006: €2,560.9 million) and the corresponding liabilities at €2,475.4 million (2006: €2,599.1 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

57 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 international standards, 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:

€ million		Nominal amounts with a residual term of			Nominal amounts	Nominal amounts
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2007	Total 2006
OTC products	FRAs	260	3	0	263	5
	Interest-rate swaps	5,155	12,115	9,802	27,072	27,520
	Interest-rate options–purchases	1,977	3,227	3,974	9,178	11,721
	Interest-rate options–sales	766	3,067	4,598	8,431	11,406
	Forward transactions	319	0	0	319	572
Exchange-listed products	Interest-rate futures	2,826	973	0	3,799	5,503
	Interest-rate options	0	0	66	66	0
Interest-based transactions		**11,303**	**19,385**	**18,440**	**49,128**	**56,727**
OTC products	Foreign exchange forwards	23,115	1,500	43	24,658	24,113
	Cross-currency swaps	305	38	55	398	215
	Foreign exchange options–purchases	2,285	475	0	2,760	2,132
	Foreign exchange options–sales	1,835	373	0	2,208	1,738
Exchange-listed products	Currency futures	2	0	0	2	15
Foreign-exchange-based transactions		**27,542**	**2,386**	**98**	**30,026**	**28,213**
OTC products	Equity/index options–purchases	154	249	204	607	205
	Equity/index options–sales	128	43	18	189	27
Exchange-listed products	Equity/index futures	1,122	0	0	1,122	950
	Equity/index options	5,548	3,385	78	9,011	10,450
Equity/index-based transactions		**6,952**	**3,677**	**300**	**10,929**	**11,632**
OTC products	Credit default swaps–purchases	0	0	0	0	20
	Credit default swaps–sales	0	0	0	0	20
Credit derivatives		**0**	**0**	**0**	**0**	**40**
Total financial derivatives		**45,797**	**25,448**	**18,838**	**90,083**	**96,612**

Breakdown of the derivatives business by market value

€ million		Positive market value with a residual term of			Positive market value		Negative market value	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2007	Total 2006	Total 2007	Total 2006
OTC products	FRAs	0	0	0	0	0	0	0
	Interest-rate swaps	147	27	259	433	547	399	563
	Interest-rate options–purchases	24	5	149	178	345	0	0
	Interest-rate options–sales	0	0	0	0	0	199	344
	Forward transactions	0	3	0	3	0	3	0
Interest-based transactions		**171**	**35**	**408**	**614**	**892**	**601**	**907**
OTC products	Foreign exchange forwards	32	444	1	477	289	474	290
	Cross-currency swaps	1	3	3	7	3	9	5
	Foreign exchange options–purchases	27	121	0	148	72	0	0
	Foreign exchange options–sales	0	0	0	0	0	117	41
Foreign exchange-based transactions		**60**	**568**	**4**	**632**	**364**	**600**	**336**
OTC products	Equity/index options–purchases	14	26	26	66	69	0	0
	Equity/index options–sales	0	0	0	0	0	60	56
Equity/index-based transactions		**14**	**26**	**26**	**66**	**69**	**60**	**56**
OTC products	Credit default swaps–purchases	0	0	0	0	1	0	0
	Credit default swaps–sales	0	0	0	0	0	0	1
Credit derivatives		**0**	**0**	**0**	**0**	**1**	**0**	**1**
Total financial derivatives		**245**	**629**	**438**	**1,312**	**1,326**	**1,261**	**1,300**

58 Contingent Liabilities and Other Obligations

€ million	31.12.2007	31.12.2006
Contingent liabilities on guarantees and indemnity agreements	1,617.2	1,581.2
Irrevocable loan commitments	3,704.3	3,701.1
Total	**5,321.5**	**5,282.3**

As before, there are no obligations in respect of unpaid share capital relating to investments. 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 Liquiditätskonsortialbank GmbH was also unchanged, at €3.7 million. In addition, we bear a proportional contingent liability for fulfilling the funding obligations of other partners in the Association of German Banks (Bundesverband deutscher Banken e.V.).

On 1 January 2008, HSBC Trinkaus & Burkhardt AG acquired 49% of the capital of International Transaction Services GmbH (ITS).

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 €2.1 million is still outstanding.

Commitments arising from leasing and rental contracts totalled €35.4 million (2006: €35.7 million) as at the balance sheet date.

€ million	31.12.2007	31.12.2006
Up to 1 year	18.6	21.4
including leasing	4.6	8.6
Over 1 year up to 5 years	13.3	12.6
including leasing	4.9	4.6
Over 5 years	3.5	1.7
including leasing	0.0	0.0
Total commitments arising from leasing and rental contracts	**35.4**	**35.7**

59 Assets Pledged as Collateral

Securities with a nominal value of €862.6 million (2006: €503.3 million) were deposited as collateral for transactions on Eurex and for securities lending operations(cf. Note 30). Debt instruments with a nominal value of €1,767.0 million (€1,878.3 million) were available for use as collateral for peak funding facilities on the balance sheet date.

60 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:

€ million	31.12.2007	31.12.2006
Trust assets	**373.1**	**374.1**
Loans and advances to banks	146.0	3.5
Loans and advances to customers	123.6	250.4
Trust equity holdings	103.5	120.2
Trust liabilities	**373.1**	**374.1**
Deposits by banks	3.4	4.5
Customer accounts	369.7	369.6

61 Participating Interests

HSBC Trinkaus & Burkhardt AG holds a direct or indirect stake of at least 20% in the following mainly fully consolidated companies:

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € thousand	Net income for 2007 in € thousand
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	41,807
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	81,772	17,444
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	436	2,848
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	18,509	3,009
International Transaction Services GmbH*	Düsseldorf	51.0	19,771	4,771
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	-94
HSBC Investments Deutschland GmbH	Düsseldorf	100.0	5,001	15,351
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,402	949
Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	-7
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	-6,227
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	-2,137
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	32	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	61	5
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	62	5
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	24	-1
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	24	-1

*accounted for at equity

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € thousand	Net income for 2007 in € thousand
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,557
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,165	2,094
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	9
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	3	1
Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG	Düsseldorf	100.0	60	0
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	11,957	256
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,872	294
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	767	280
Other companies				
HSBC Bond Portfolio GmbH	Frankfurt am Main	100.0	54	4
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	6,037	1
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	29	3
SINO AG*	Düsseldorf	26.6	5,580	2,992

*consolidated at equity. The shareholding was increased from 15.1% to 26.6% during the year under report.

62 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 Investments 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 (if individual legal persons) 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, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided the Managing Partners are natural persons.

63 Staff

Annual average	2007	2006
Staff employed abroad	138	130
Staff employed in Germany	1,599	1,446
Total (including trainees)	**1,737**	**1,576**
of which:		
female members of staff	762	694
male members of staff	975	882

64 Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expenses:

€ million	2007	2006
Audits	0.8	0.7
Other audit or valuation services	0.2	0.1
Tax advisory services	0.0	0.0
Other services	0.2	0.3
Total	**1.2**	**1.1**

65 Business Relationships with Companies and Pensions defined as Related Parties

In accordance with our "best of both worlds" strategy, we continued to expand our 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 €265.3 million (2006: 150.2 million) in income and €37.7 million (2006: €21.8 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. Income includes interest income of €207.2 million (2006: €96.5 million). This increase is due to the large surpluses of liquidity loaned by the Bank to other units of the HSBC Group owing to the subprime crisis.

Loans and advances to banks and customers include the following amounts:

	Affiliated companies		Associated companies		Interests in associates	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Loans and advances to banks	2,442.7	919.6	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	91.1	26.7	31.4	35.4
Total	**2,442.7**	**919.6**	**91.1**	**26.7**	**31.4**	**35.4**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies		Interests in associates	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Deposits by banks	857.4	813.1	0.0	0.0	0.0	0.0
Customer accounts	1.8	1.5	4.5	5.5	25.8	12.2
Total	**859.2**	**814.6**	**4.5**	**5.5**	**25.8**	**12.2**

Assets/liabilities held for trading include the following amounts:

	Securities		Derivatives	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Trading assets	4,253.1	1,930.1	792.6	606.3
Trading liabilities	0.0	0.0	417.4	360.6

Compensation of the Executive Bodies

The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Organisation and Management). The following overview shows the total compensation of the individual members of the Management Board in the 2007 financial year and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 July 2007, information is disclosed pursuant to Section 314 para. 1 No. 6 (a) sentence 5-9 of the German Commercial Code (Handelsgesetzbuch–HGB).

€ thousand	2007
Fixed remuneration	2,112.5
Variable remuneration	8,466.8
Share-based payments	1,000.0
Other remuneration*	96.6
Total remuneration	**11,675.9**

*Other remuneration comprises mainly remuneration paid for the assumption of Supervisory Board offices within the Group, use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

The performance-related components for 2007 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The cash component is taken into account in the table. The share component will be paid in three equal amounts from 2009 to 2011, subject to continued service for the Bank.

In connection with the change in the Bank's legal form, the Managing Partners were granted a one-off overall amount of €3.0 million in shares in HSBC Holdings plc as an incentive to remain on the Management Board of the stock corporation (AG). The payment will be made in three equal instalments at the end of each year from 2006 through 2008, and is subject to their continued service for the bank.

Provisions totalling €10.2 million (2006: €10.9 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 17 June 2008, the compensation of the Supervisory Board for 2007 will be €1,180,463.69 (2006: €1,064,831.62). The members of the Board of Directors received compensation totalling €323,100.00 (2006: €208,505.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled €193,203.88 (2006: €201,278.88). 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 €4.5 million (2006: €4.5 million). Provisions totalling €44.1 million (2006: €49.6 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 66. Minor use was made of this right.

As in the previous year, there were no loans and advances to Members of the Management Board and the Supervisory Board. Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

66 Share Option Scheme

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 31.12.2007	Number of option rights 31.12.2006
SAYE 2003 (3Y/5Y)	01.08.2003	2.8143/2.8944	7.68	64,804	68,369
SAYE 2004 (3Y/5Y)	01.08.2004	2.9064/3.2060	9.75	26,645	93,664
SAYE 2005 (3Y/5Y)	01.08.2005	2.9518/2.9952	9.66	148,522	159,400
SAYE 2006 (1Y/3Y/5Y)	01.08.2006	2.5400/2.6000/2.6700	11.01	74,929	100,769
SAYE 2007 (1Y/3Y/5Y)	01.08.2007	2.9900/2.9000/2.8200	10.42	174,097	–
Aggregate				**488,997**	**422,202**

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 anticipated term of the option depends on the behaviour of the option holder, which is integrated in the option model. Historical values are also taken into consideration in this context. The share options are generally exercised by staff on 1 August of the 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 2007 was €12.30.

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 1.1.2007	SAYE 2003-2006	422,202	9.68
Granted in the course of the year	SAYE 2007	174,097	10.42
Exercised in the course of the year	SAYE 2004 (3Y)/ SAYE 2006 (1Y)	83,108	10.04
Forfeited in the course of the year	SAYE 2003-2007	24,194	9.75
Balance as at 31.12.2007	SAYE 2003-2007	488,997	9.88
of which outstanding option rights		488,079	–
of which exercisable option rights		918	–

The staff expenses to be taken into account in the year under report are €0.5 million (2006: €0.4 million).

Breakdown of the share option scheme

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:

	Performance-related remuneration in HSBC shares	
	for the 2007 financial year	for the 2006 financial year
Maturing in March 2008	0.0	2.7
Maturing in March 2009	4.6	2.7
Maturing in March 2010	4.6	2.7
Maturing in March 2011	4.7	0.0
Total	**13.9**	**8.1**

The total value of liabilities from share-based payments at the end of the reporting period amounts to €3.4 million (2006: €0.0 million).

67 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 shareholders, pursuant to Section 161 German Stock Corporation Act (AktG).

68 Offices held by Members of the Management Board

As of 31 December 2007, 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
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Deputy Member of the Management Board	L-Bank, Karlsruhe

Paul Hagen	
Position	Company
Chairman of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Supervisory Board	Falke-Bank i. L., Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Advisory Board	RWE Trading GmbH, Essen

Dr Olaf Huth	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

Carola Gräfin von Schmettow	
Position	Company
Chairwoman of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Chairwoman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	DBV Winterthur Lebensversicherung, Wiesbaden
Member of the Board of Directors	HSBC Investments (France) SA, Paris, France
Chairwoman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg

69 Offices held by Other Members of Staff

As of 31 December 2007, 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	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw

Bernd Franke	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Gerd Götz	
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 m.v.K., Düsseldorf

Marc Landvatter	
Position	Company
Deputy Chairman of the Supervisory Board	Algopool AG, Cologne

Dr Christiane Marliani	
Position	Company
Member of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg

Dr Manfred v. Oettingen	
Position	Company
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf

Hans-Joachim Rosteck	
Position	Company
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

Ulrich W. Schwittay	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf

Jürgen Werner	
Position	Company
Member of the Supervisory Board	daab GmbH, Cologne

70 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	
Position	Company
Member 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

Dr h.c. Ludwig Georg Braun	
Position	Company
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
Chairman of the Advisory Board	Aesculap AG & Co.KG, Tuttlingen
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, Luzern, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Luzern, 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 SA, Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical SA, Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main/Erfurt
Member of the Board of Directors	Wilh. Wehrhahn KG, Neuss

Dr Hans-Michael Gaul	
Position	Company
Member of the Supervisory Board	Allianz Versicherungs-AG, Munich
Member of the Supervisory Board	DKV Deutsche Krankenversicherung AG, Cologne
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
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 & Burkhardt Immobilien 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	Börse Düsseldorf AG, Düsseldorf
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, Berlin

Dr Otto Graf Lambsdorff	
Position	Company
Chairman of the Supervisory Board	Iveco Magirus AG, Ulm
Member of the Supervisory Board	Deutsche Lufthansa AG, Frankfurt am Main/Cologne

Professor Dr Ulrich Lehner	
Position	Company
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	Dr. Ing. h.c. F. Porsche S.E., Stuttgart
Member of the Board of Directors	Novartis AG, Basel, Switzerland

Dr Siegfried Jaschinski	
Position	Company
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Member of the Supervisory Board	Heidelberger Druckmaschinen AG, Heidelberg
Chairman of the Board of Governors	Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart
Chairman of the Board of Directors	LRP Landesbank Rheinland-Pfalz, Mainz
Member of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main
Member of the Board of Directors	KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main

71 Publication

The Annual Report will be released for publication on 4 April 2008. The release for publication was approved by the Management Board in its meeting on 18 March 2008.

Düsseldorf, 6 February 2008

Andreas Schmitz	Paul Hagen
Dr Olaf Huth	Carola Gräfin v. Schmettow

Auditors’ Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements 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 2007. 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 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 business activities and the economic and legal environment of the Group 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 our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

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 as well as IFRS overall 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, 13 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Signed by Becker Auditor	Signed by Kügler Auditor

ANNEX D

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 30 June 2009

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 30 June 2009 is reproduced on the following pages and separately paginated (25 pages, from page D-2 through page D-26).

Interim Report as at 30 June 2009

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01. – 30.06.2009	01.01. – 30.06.2008	Change in %
Income statement in €m			
Operating revenues	310.9	306.5	1.4
Net loan impairment and other credit risk provisions	0.1	0.7	–85.7
Administrative expenses	204.9	204.4	0.2
Operating profit	105.9	101.4	4.4
Profit before taxes	92.0	101.2	–9.1
Tax expenses	30.0	31.7	–5.4
Net profit for the year	62.0	69.5	–10.8
Ratios			
Cost:income ratio of usual business activity in %	69.0	66.7	–
Return on equity before tax in % (projected for the year as a whole)	19.2	22.1	–
Net fee income in % of operating revenues	55.5	58.3	–
No. of employees at the reporting date	2,245	2,185	2.7
Share information			
Average number of shares in circulation in million	26.1	26.1	0.0
Earnings per share in €	2.31	2.66	–13.1
Share price at the reporting date in €	86.0	115.0	–25.2
Market capitalisation at the reporting date in €m	2,245	3,002	–25.2

	30.06.2009	31.12.2008	Change in %
Balance sheet figures in €m			
Total assets	21,115.3	22,205.7	–4.9
Shareholders' equity	981.7	955.0	2.8
Regulatory ratios			
Tier 1 in €m	753	754	–0.1
Regulatory capital in €m	1,096	1,151	–4.8
Risk-weighted assets in €m	7,750	8,588	–9.8
Tier 1 ratio in %	9.7	8.8	–
Regulatory capital ratio in %	14.1	13.4	–

Ladies and Gentlemen,

HSBC Trinkaus held up well in the first half of 2009 in an extremely challenging economic environment. The Bank remained on target for success and was able to achieve a favourable result.

The following interim management report should be read in conjunction with our group management report for 2008. The organisation, structure and strategic orientation of the Group still correspond to the statements made in the group management report.

Interim Management Report

Despite still operating in a difficult market environment, HSBC Trinkaus can look back on a stable and successful first half of 2009. Operating profit was up by 4.4 % from € 101.4 million to € 105.9 million. However, the Bank was not completely able to escape the general market trend. Price losses with respect to individual financial assets meant that further moderate value adjustments were required, as a result of which profit before taxes declined by 9.1 % from € 101.2 million to € 92.0 million. This gives a return on equity before tax of 19.2 % after 22.1 % in the prior-year period, representing a good figure in a sector comparison. The Bank's Tier 1 ratio (excluding hybrid capital) increased to 9.7 % and the total capital ratio to 14.1 %. Overall, we can therefore report good profitability and strong capitalisation.

General Economic Setting

The global economy is being subjected to considerable pressure at present. Export-oriented companies appear to be particularly hard hit by the global recession. Owing to its major dependence on external trade as well as the rapid fall in demand on the export markets, Germany is affected by the crisis to a far greater extent than other mature industrial nations. The federal government is anticipating a decline in economic output of around 6 % this year. Should the forecast of a significant increase in unemployment from August this year be fulfilled, the propensity to consume is also likely to decline in Germany in 2010 at the latest. Nevertheless, Germany has a relatively solid core compared to other nations as its economic efficiency is by no means based on debt-financed excessive private consumption. This means that Germany has a good chance of benefiting relatively early on from an upturn in the global economy. The first classical economic indicators, such as the Ifo business confidence index, are already suggesting that the downswing in the key industries is coming to an end. The ECB's expansionary monetary policy and the government economic support programmes in the Federal Republic also appear to be having an effect on business activity and therefore stabilising the economy. However, even after the end of the recession, it is questionable whether the economy will recover rapidly and replicate its former performance in the medium term or rather stagnate on a low level for years to come.

Report on profitability

The earnings components of the operating result can be summarised as follows:

- Net interest income was up 16.6 % to € 73.8 million (2008: € 63.3 million). This increase is essentially the result of expanded bond holdings in the banking book where we increased our exposure in high grade new issues. On the other hand, the significant decline in the margin in the deposit business as a result of the lower level of interest rates could not be fully compensated for by a widening of the credit margin in the corporate loan book.

- Net loan impairment and other credit risk provisions amounted to € 0.1 million (2008: € 0.7 million). There was a net reversal of € 0.9 million with respect to individually assessed impairments. However, further additions of € 1.0 million were made to collectively assessed impairments in order to make adequate allowance for the general uncertainty with respect to the future economic situation. Our conservative stance is unchanged in relation to the assessment of default risks.

- At € 172.5 million, net fee income was only slightly lower than the prior-year result of € 178.6 million. Lower transaction-related securities commission, in particular in the equities business, was mainly responsible for this decline. In the real estate business, we benefited above all from the successful distribution of a closed-end real estate fund.

- There was a reduction in net trading income of 5.1 % to € 59.2 million (2008: € 62.4 million), due essentially to equity and equity/index derivatives trading. However, it is to be pointed out as positive here that we were able to expand our revenues and market shares in the certificates market. Significant spread widening in trading with interest products led to considerable valuation losses in respect of bonds. However, thanks to our excellent liquidity position we were able to more than compensate for this with a favourable performance in the money market business leading to an overall increase in the result in interest rate trading. We also increased earnings in the foreign exchange business and achieved valuation gains on derivatives held in the bank book for hedging strategic positions. The earnings power of our trading activities becomes clear in segment reporting.

- Net other income/expenses of € 11.5 million after € 2.0 million in the previous year was influenced by extraordinary items. These include the successful placement of a real estate fund as well as the sale of a building in Luxembourg. Income from financial assets is still influenced by further value corrections to equities, fund units and bonds. However, these essentially took place in the first quarter.

- Thanks to our strict cost discipline, administrative expenses remained almost constant at € 204.9 million (2008: € 204.4 million). We invested further in expanding our IT systems. The number of employees grew at a far slower pace compared to the previous years of 2.7 % as we want to limit administrative expenses in view of an uncertain forecast. At 69.0 %, the cost:income ratio, as the main indicator of success for our banking business, remains within the adequate range for our business model of 65 % to 70 %.

Report on assets

Total assets declined moderately compared to the end of 2008 by 4.9 % to € 21.1 billion. On the liabilities side, customer accounts remain our most important source of refinancing.

At € 981.7 million, shareholders' equity was 2.8 % higher than the figure of € 955.0 million at the end of the previous year, despite the dividend payment in June this year. The valuation reserve for financial instruments, which has risen by 54.9 % from € 47.5 million to now € 73.6 million, is to be pointed out in particular. This is due primarily to the stabilisation on the capital markets. In addition, the actuarial profits and losses from pensions improved by € 2.2 million (2008: € –5.3 million) due essentially to the positive performance of plan assets.

Report on financial position

The Bank's financial position is still characterised by excellent liquidity. The minimum regulatory requirements in accordance with the Liquidity Ordinance (LiqV) were exceeded by far with an average of 1.78 for the end-of-month positions. At € 11.3 billion, customer accounts were only slightly lower than the year-end level. We invest a substantial part of this liquidity in eligible bonds and promissory note loans issued among others by German federal states. The capital ratio increased to 14.1 % after 13.4 % at the end of the year, with Tier 1 capital excluding hybrid capital components accounting for 9.7 percentage points (2008: 8.8 percentage points).

Principal opportunities and risks

Our risk management system is geared towards consciously accepting and controlling risk within the scope of the overall management of risks which are customary to banking operations in order to make use of the resulting yield opportunities. We regard counterparty, market and liquidity risk, operating and strategic risks and not least risks to our reputation as the principal risks of our banking business. Opportunities exist in both acquiring new clients and expanding existing client relationships and therefore in a possible increase in revenues in light of the problems being experienced by some competitors in the market. Our aim is to continue to generate good net trading income through the targeted use of market fluctuations as well as an attractive product range, at the same time as strict limit discipline.

The risk management and risk reporting procedures described in the latest consolidated financial statements still correspond to the current conditions.

Counterparty risk

The maximum default risk after the first six months of 2009 breaks down into the sectors listed below:

	30.06.2009		31.12.2008	
	in €m	in %	in €m	in %
Banks and financial institutions	11,216.1	45.8	12,584.9	47.7
Companies and self-employed professionals	7,806.0	31.8	9,191.2	34.9
Public sector	5,160.8	21.0	4,278.3	16.2
Employed private individuals	354.6	1.4	311.2	1.2
Total	**24,537.5**	**100.0**	**26,365.6**	**100.0**

The quality of the loans and advances (including contingent liabilities and loan commitments) which are neither overdue nor impaired can be assessed on the basis of the following overview:

	30.06.2009		31.12.2008	
	in €m	in %	in €m	in %
Credit ratings 1–2	6,777.2	61.0	7,215.9	59.0
Credit ratings 3–4	4,153.7	37.3	4,906.1	40.1
Credit rating 5	190.8	1.7	106.2	0.9
Total	**11,121.7**	**100.0**	**12,228.2**	**100.0**

Market risk

The total market risk after the first six months of 2009 is as follows:

in €m	30.06.2009	30.12.2008
Interest rate transactions	2.5	2.9
Equity and index transactions	3.0	3.8
Foreign exchange transactions	0.3	0.0
Total potential market risk in the trading portfolio	**4.7**	**4.4**

The market risk potential is calculated for all market risk categories using a standardised internal model. For many years, we have been using a value-at-risk approach to measure market risks in our trading book under normal market conditions. 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. The value-at-risk was not exceeded on any day in the first half of 2009.

Outlook for 2009

The overall economic environment will remain a challenge for HSBC Trinkaus and the entire sector for the foreseeable future. The financial and economic crisis will most probably result in lasting changes to the financial world. But it is exactly in this market situation that the strengths shown by HSBC Trinkaus come into their own more than ever. Our stable business model has proven itself in these uncertain times in particular and will continue to form the basis for a successful business performance. It is still characterised by its clear orientation towards our target groups and is supported by risk-aware trading. In addition, as a member of the HSBC Group, we offer our clients 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.

The trust our clients place in the Bank is an important factor for success. HSBC Trinkaus is therefore aiming to continue to expand its market shares in the clearly defined target groups "wealthy private clients", "corporate clients" and "institutional clients" this year. We focus primarily here on the existing customer base in order to master the difficult times which lie ahead of us together on a partnership basis.

Thanks to its conservative stance within the framework of a proven business model and its integration into HSBC's financially sound and profitable global network, the Bank believes it is well prepared for the challenges of this year. As these will arise in particular in the corporate business in the second half of the year, we are paying far greater attention to our credit book. Under the condition that the Bank remains untroubled by major losses in the lending business, a solid, albeit slightly lower operating profit is to be expected for 2009 overall. The pressure resulting from financial assets should ease slightly thanks to the government measures introduced to stabilise the capital markets.

Report on business relationships with companies and persons defined as related parties

HSBC Trinkaus still has significant business relationships with other companies of the HSBC Group. The results of these business relationships are reflected above all in net fee income and net interest income. In the balance sheet, significant loans and advances to other HSBC units are set against liabilities to these units. A large number of trading positions are also entered into directly or hedged with the Group's affiliated companies. All transactions are concluded at normal market prices.

It can be seen that the Bank is continuing with its good performance overall. We are therefore convinced that HSBC Trinkaus is also well equipped to master the challenges which lie ahead.

Düsseldorf, August 2009
The Management Board

Andreas Schmitz | Paul Hagen | Dr. Olaf Huth | Carola Gräfin v. Schmettow

Consolidated Income Statement

in €m	Note	01.01. – 30.06.2009	01.01. – 30.06.2008	Change in %
Interest income		131.1	197.9	–33.8
Interest expense		57.3	134.6	–57.4
Net interest income	(1)	73.8	63.3	16.6
Net loan impairment and other credit risk provisions	(2)	0.1	0.7	–85.7
Share of profit in associates		0.5	0.2	> 100.0
Fee income		283.5	305.9	–7.3
Fee expenses		111.0	127.3	–12.8
Net fee income	(3)	172.5	178.6	–3.4
Net trading income	(4)	59.2	62.4	–5.1
Administrative expenses	(5)	204.9	204.4	0.2
Income from financial assets		–20.5	–0.2	> 100.0
Net other income/expenses	(6)	11.5	2.0	> 100.0
Profit before taxes		**92.0**	**101.2**	**–9.1**
Tax expenses		30.0	31.7	–5.4
Net profit for the year		**62.0**	**69.5**	**–10.8**
Profit/loss attributable to minority shareholders		1.6	0.0	100.0
Profit/loss attributable to HSBC Trinkaus shareholders		60.4	69.5	–13.1

Earnings per share

in €	01.01. – 30.06.2009	01.01. – 30.06.2008	Change in %
Earnings per share	2.31	2.66	–13.1
Undiluted earnings per share	2.31	2.66	–13.1

As in the corresponding prior-year period, there were no option and conversion rights outstanding for the purchase of shares in the first half of 2009. There was therefore no calculable dilution effect.

Consolidated Income Statement Quarterly Results

in €m	Q2 2009	Q1 2009	Q2 2008	Q1 2008
Interest income	60.9	70.2	101.3	96.6
Interest expense	23.3	34.0	66.3	68.3
Net interest income	37.6	36.2	35.0	28.3
Net loan impairment and other credit risk provisions	–0.3	0.4	–0.5	1.2
Share of profit in associates	0.3	0.2	0.2	0.0
Fee income	138.6	144.9	150.1	155.8
Fee expenses	57.8	53.2	61.5	65.8
Net fee income	80.8	91.7	88.6	90.0
Net trading income	35.7	23.5	28.9	33.5
Administrative expenses	102.6	102.3	105.1	99.3
Income from financial assets	–6.7	–13.8	0.8	–1.0
Other income	2.8	8.7	1.2	0.8
Profit before taxes	**48.2**	**43.8**	**50.1**	**51.1**
Tax expenses	15.0	15.0	15.2	16.5
Net profit for the year	**33.2**	**28.8**	**34.9**	**34.6**
Profit/loss attributable to minority shareholders	0.0	1.6	0.0	0.0
Profit/loss attributable to HSBC Trinkaus shareholders	33.2	27.2	34.9	34.6

Earnings per share

in €	Q2 2009	Q1 2009	Q2 2008	Q1 2008
Earnings per share	1.27	1.04	1.33	1.33
Undiluted earnings per share	1.27	1.04	1.33	1.33

Consolidated Balance Sheet

Assets in €m	(Note)	30.06.2009	31.12.2008	Change in %
Cash reserve		170.0	139.5	21.9
Loans and advances to banks	(8)	3,082.1	2,979.7	3.4
Loans and advances to customers	(9)	3,579.3	4,082.6	– 12.3
Net loan impairment provision	(10)	– 21.3	– 21.4	– 0.5
Trading assets	(11)	10,979.0	12,482.6	– 12.0
Financial assets	(12)	2,869.4	2,118.8	35.4
Interests in associates		10.1	10.1	0.0
Property, plant and equipment		76.7	81.1	– 5.4
Intangible assets		51.9	56.0	– 7.3
Taxation recoverable		2.1	17.5	– 88.0
current		2.1	13.0	– 83.8
deferred		0.0	4.5	– 100.0
Other assets		316.0	259.2	21.9
Total assets		**21,115.3**	**22,205.7**	**– 4.9**

Liabilities in €m	(Note)	30.06.2009	31.12.2008	Change in %
Deposits by banks	(13)	2,839.5	2,709.1	4.8
Customer accounts	(14)	11,333.0	11,592.8	– 2.2
Certificated liabilities		10.0	10.0	0.0
Trading liabilities	(15)	5,222.1	6,152.9	– 15.1
Provisions		111.9	117.4	– 4.7
Taxation		103.4	85.1	21.5
current		95.8	81.5	17.5
deferred		7.6	3.6	> 100.0
Other liabilities		126.8	108.2	17.2
Subordinated capital		386.9	458.7	– 15.7
Shareholders’ equity		981.7	955.0	2.8
Share capital		70.0	70.0	0.0
Capital reserve		216.9	218.5	– 0.7
Retained earnings		613.2	566.8	8.2
Consolidated profit available for distribution in 2008		–	99.7	–
Profit 01.01.2009 – 30.06.2009 including profit brought forward		81.6	–	–
Minority interests		0.0	16.5	– 100.0
Total equity and liabilities		**21,115.3**	**22,205.7**	**– 4.9**

Breakdown of consolidated shareholders' equity and subordinated capital

in €m	30.06.2009	31.12.2008
Share capital	70.0	70.0
Capital reserve	216.9	218.5
Retained earnings	613.2	566.8
of which: valuation reserve for financial instruments	73.6	47.5
of which: valuation reserve for actuarial profits and losses	–22.1	–24.3
Net profit including profit brought forward	81.6	99.7
Consolidated shareholders' equity	**981.7**	**955.0**
Subordinated liabilities	286.9	322.9
Participatory capital	100.0	135.8
Consolidated subordinated capital	**386.9**	**458.7**
Total	1,368.6	1,413.7

Consolidated statement of changes in equity

in €m	2009	2008
Consolidated shareholders' equity as at 01.01.	955.0	968.7
Distribution	–65.3	–65.3
Net profit	62.0	69.5
Gains/losses not recognised in the income statement (change in valuation reserves)	28.3	–52.4
Share-based compensation settled in the form of equity instruments	6.5	4.1
Transfer of shares to employees in connection with share-based remuneration schemes	–3.2	–2.8
Effects of the change in minority interests	–1.6	0.0
Other effects	0.0	0.0
Consolidated shareholders' equity as at 30.06.	981.7	921.8

Comprehensive income for the period

in €m	01.01. – 30.06.2009	01.01. – 30.06.2008
Net profit for the year	62.0	69.5
Gains/losses not recognised in the income statement	28.3	–52.4
of which from financial instruments	26.1	–47.1
of which from actuarial results	2.2	–5.3
Total	**90.3**	**17.1**
Attributable to:		
Minority interests	1.6	0.0
HSBC Trinkaus shareholders	88.7	17.1

Consolidated cash flow statement

in €m	2009	2008
Cash and cash equivalents as at 01.01.	**139.5**	**332.3**
Cash flow from operating activities	169.2	–208.6
Cash flow from investing activities	–1.6	–0.9
Cash flow from financing activities	–137.1	–65.3
Cash and cash equivalents as at 30.06.	**170.0**	**57.5**

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 30 June 2009 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 satisfies the requirements of a half-year financial report pursuant to Section 37w 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 2008 consolidated financial statements.

All changes to standards, 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. – 30.06.2009	01.01. – 30.06.2008
Interest income	**131.1**	**197.9**
From loans and advances to banks	25.3	68.7
Money market transactions	21.8	61.0
Other interest-bearing receivables	3.5	7.7
From loans and advances to customers	57.9	95.9
Money market transactions	13.6	28.1
Other interest-bearing receivables	44.3	67.8
From financial assets	47.9	33.3
Interest income	45.9	30.3
Dividend income	1.3	1.3
Income from subsidiaries	0.7	1.7
Interest expense	**57.3**	**134.6**
From deposits by banks	11.9	26.4
Money market transactions	9.6	18.7
Other interest-bearing deposits	2.3	7.7
From customer accounts	34.1	96.3
Money market transactions	15.7	45.4
Other interest-bearing deposits	18.4	50.9
From securitised liabilities	0.2	0.2
From subordinated capital	11.1	11.7
Net interest income	**73.8**	**63.3**

2 Net loan impairment and other credit risk provisions

in €m	01.01. – 30.06.2009	01.01. – 30.06.2008
Additions	2.9	2.5
Reversals	2.8	1.7
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.1
Total	**0.1**	**0.7**

3 Net fee income

in €m	01.01. – 30.06.2009	01.01. – 30.06.2008
Securities transactions	114.6	119.2
Foreign exchange transactions and derivatives	30.3	28.4
Foreign business	6.4	6.7
Issuing and structuring business	5.8	7.5
Payments	3.1	2.9
Lending	3.1	2.1
Investment banking	2.1	1.9
Real estate	1.2	0.0
Other fee-based business	5.9	9.9
Total	172.5	178.6

4 Net trading income

in €m	01.01. – 30.06.2009	01.01. – 30.06.2008
Equities and equity/index derivatives	37.6	48.5
Bonds and interest rate derivatives	12.2	10.8
Foreign exchange	5.0	3.1
Derivatives in the bank book	4.4	0.0
Total	59.2	62.4

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. – 30.06.2009	01.01. – 30.06.2008
Staff expenses	125.5	126.9
Wages and salaries	109.4	111.9
Social security costs	11.5	11.0
Post-employment benefits	4.6	4.0
Other administrative expenses	68.7	67.9
Depreciation of property, plant and equipment and of intangible assets	10.7	9.6
Total	204.9	204.4

6 Net other income/expenses

in €m	01.01. – 30.06.2009	01.01. – 30.06.2008
Other operating income	10.7	3.1
Other operating expenses	1.4	1.1
Net other operating income and expenses	**9.3**	**2.0**
Net other non-operating income	2.2	0.0
Net other non-operating expenses	0.0	0.0
Net other non-operating income and expenses	**2.2**	**0.0**
Other income	11.5	2.0

7 Segment reporting

in €m	Private Banking	Corporate Banking	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income						
30.06.2009	7.3	22.0	0.8	8.2	35.5	73.8
30.06.2008	7.0	21.9	2.1	2.6	29.7	63.3
Net loan impairment and other credit risk provisions*						
30.06.2009	0.8	3.9	0.8	0.1	–5.5	0.1
30.06.2008	0.6	3.5	0.4	0.1	–3.9	0.7
Share of profit in associates						
30.06.2009	0.0	0.0	0.0	0.0	0.5	0.5
30.06.2008	0.0	0.0	0.0	0.0	0.2	0.2
Net fee income						
30.06.2009	38.8	49.7	76.2	0.9	6.9	172.5
30.06.2008	44.3	46.0	75.3	3.2	9.8	178.6
Operating trading profit						
30.06.2009	0.0	–0.2	6.1	61.6	–12.7	54.8
30.06.2008	0.0	–0.2	2.6	54.8	5.2	62.4
Administrative expenses						
30.06.2009	34.2	40.7	46.0	29.1	54.9	204.9
30.06.2008	32.9	38.6	46.2	27.4	59.3	204.4
of which depreciation and amortisation						
30.06.2009	0.8	0.6	0.3	0.4	8.5	10.6
30.06.2008	0.8	0.5	0.4	0.3	7.7	9.7
Net other operating income and expenses						
30.06.2009	0.0	0.0	0.0	0.0	9.3	9.3
30.06.2008	0.0	0.0	0.0	0.0	2.0	2.0
Operating profit						
30.06.2009	**11.1**	**26.9**	**36.3**	**41.5**	**–9.9**	**105.9**
30.06.2008	**17.8**	**25.6**	**33.4**	**33.1**	**–8.5**	**101.4**
Income from financial assets						
30.06.2009	0.0	0.0	0.0	0.0	–20.5	–20.5
30.06.2008	0.0	0.0	0.0	0.0	–0.2	–0.2
Income from derivatives in the bank book						
30.06.2009	0.0	0.0	0.0	0.0	4.4	4.4
30.06.2008	0.0	0.0	0.0	0.0	0.0	0.0
Net other non-operating income and expenses						
30.06.2009	0.0	0.0	0.0	0.0	2.2	2.2
30.06.2008	0.0	0.0	0.0	0.0	0.0	0.0
Profit before taxes						
30.06.2009	**11.1**	**26.9**	**36.3**	**41.5**	**–23.8**	**92.0**
30.06.2008	**17.8**	**25.6**	**33.4**	**33.1**	**–8.7**	**101.2**
Taxation						
30.06.2009	3.5	8.6	11.6	13.3	–7.0	30.0
30.06.2008	5.6	8.2	10.7	10.6	–3.4	31.7
Net profit for the year						
30.06.2009	**7.6**	**18.3**	**24.7**	**28.2**	**–16.8**	**62.0**
30.06.2008	**12.2**	**17.4**	**22.7**	**22.5**	**–5.3**	**69.5**

* including € –6.0 million consolidation (2008: € –4.7 million)

The Global Markets, Institutional Clients and Corporate Banking segments again managed to improve on their good results recorded the previous year despite the global financial market and economic crisis, while the Private Banking segment was not able to repeat its prior-year result due to this unfavourable general setting. The impact of the financial market crisis was seen in particular in the Bank's negative income from financial assets held in the Bank's Central Divisions.

The Institutional Clients segment was extremely successful compared to the previous year in the business with issues and the distribution and trading of fixed-interest securities, which was able to more than compensate for the loss of revenues in the asset management and equities business. The Corporate Banking segment managed to increase net fee income compared to the previous year, above all from foreign exchange transactions and investment banking as well as from the origination and placement of bonds. There was a significant reduction in net interest income from corporate clients' sight deposits on account of lower margins as a result of the market interest rate cuts by the ECB, despite a strong increase in volumes. However, this was compensated for by the strong increase in net interest income in the lending business which was also exclusively the result of higher margins. The Global Markets segment managed to more than compensate for the reduction in revenues in trading with equity derivatives on account of the market environment with the extremely profitable money market and foreign exchange transactions in the Treasury business. On the other hand, the Private Banking business was only able to partly make up for the major decline in revenues in the securities business on account of the restraint shown by many investors as a result of the difficult market conditions with higher revenues in the real estate business.

Thanks to strict cost discipline and the adjustment of profit-related remuneration to the decline in the overall result, administrative expenses throughout the Bank were almost unchanged compared to the previous year.

8 Loans and advances to banks

in €m	30.06.2009	31.12.2008
Current accounts	570.8	865.6
Money market transactions	2,364.6	2,049.6
of which overnight money	987.7	0.0
of which term deposits	1,376.9	2,049.6
Other loans and advances	146.7	64.5
Total	**3,082.1**	**2,979.7**
of which domestic banks	2,362.8	1,768.0
of which foreign banks	719.3	1,211.7

9 Loans and advances to customers

in €m	30.06.2009	31.12.2008
Current accounts	1,658.0	1,481.2
Money market transactions	720.1	1,023.3
of which overnight money	104.1	190.8
of which term deposits	616.0	832.5
Loan accounts	1,182.9	1,573.5
Other loans and advances	18.3	4.6
Total	**3,579.3**	**4,082.6**
of which domestic customers	2,824.1	2,902.4
of which foreign customers	755.2	1,180.2

10 Net loan impairment and other credit risk provisions

in €m	30.06.2009	31.12.2008
Net loan impairment provision	21.3	21.4
Other credit risk provisions	7.0	6.8
Net loan impairment and other credit risk provisions	**28.3**	**28.2**

	Impairments and other credit risk provisions					
	Individually assessed		Collectively assessed		Total	
in €m	2009	2008	2009	2008	2009	2008
As at 01.01.	**20.2**	**19.1**	**8.0**	**4.6**	**28.2**	**23.7**
Reversals	2.8	1.5	0.0	0.0	2.8	1.7
Utilisation	0.0	0.1	0.0	0.0	0.0	0.1
Additions	1.9	0.3	1.0	2.0	2.9	2.5
Currency translation/ transfers	0.0	0.2	0.0	0.0	0.0	0.2
As at 30.06.	**19.3**	**18.0**	**9.0**	**6.6**	**28.3**	**24.6**

11 Trading assets

in €m	30.06.2009	31.12.2008
Bonds and other fixed-income securities	5,019.8	6,945.4
Equities and other non-fixed-income securities	433.3	383.7
Tradable receivables	1,646.5	2,001.6
Positive market value of derivatives	2,190.8	2,758.2
Reverse repos	1,422.6	72.3
Securities lending	5.7	2.1
Security in the derivatives business	260.3	319.3
Total	**10,979.0**	**12,482.6**

12 Financial assets

in €m	30.06.2009	31.12.2008
Bonds and other fixed-income securities and interest rate derivatives	2,443.9	1,720.1
Equities	20.7	21.4
Investments	119.8	142.6
Promissory note loans	173.8	127.6
Interests in subsidiaries	111.2	107.1
Total	**2,869.4**	**2,118.8**

13 ▶ Deposits by banks

in €m	30.06.2009	31.12.2008
Current accounts	807.1	625.3
Money market transactions	1,862.1	1,869.5
of which overnight money	1,052.4	26.4
of which term deposits	809.7	1,843.1
Other liabilities	170.3	214.3
Total	**2,839.5**	**2,709.1**
of which domestic banks	710.4	858.0
of which foreign banks	2,129.1	1,851.1

14 ▶ Customer accounts

in €m	30.06.2009	31.12.2008
Current accounts	7,216.3	6,064.5
Money market transactions	3,715.1	5,066.4
of which overnight money	645.3	685.8
of which term deposits	3,069.8	4,380.6
Savings deposits	28.6	12.9
Other liabilities	373.0	449.0
Total	**11,333.0**	**11,592.8**
of which domestic customers	8,594.3	8,707.4
of which foreign customers	2,738.7	2,885.4

15 ▶ Trading liabilities

in €m	30.06.2009	31.12.2008
Negative market value of derivatives	2,646.2	3,190.8
Promissory note loans, bonds, certificates and warrants	2,459.6	2,852.4
Short sales	54.9	39.5
Repos	0.0	0.0
Securities lending	12.4	20.9
Security in the derivatives business	48.8	47.2
Derivatives in the bank book	0.2	2.1
Total	**5,222.1**	**6,152.9**

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 value
Interest rate transactions					
30.06.2009	9,513	16,088	12,458	38,059	958
31.12.2008	11,985	20,208	13,955	46,148	884
Foreign exchange transactions					
30.06.2009	26,634	1,703	14	28,351	613
31.12.2008	30,180	3,051	54	33,285	1,231
Equity and index transactions					
30.06.2009	5,236	2,144	112	7,492	60
31.12.2008	5,970	2,300	244	8,514	108
Total					
30.06.2009	**41,383**	**19,935**	**12,584**	**73,902**	**1,631**
31.12.2008	**48,135**	**25,559**	**14,253**	**87,947**	**2,223**

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 Contingent liabilities and other obligations

in €m	30.06.2009	31.12.2008
Contingent liabilities on guarantees and indemnity agreements	1,556.0	1,747.5
Irrevocable loan commitments	3,031.9	3,489.2
Total	**4,587.9**	**5,236.7**

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Düsseldorf, August 2009
The Management Board

Andreas Schmitz Paul Hagen Dr. Olaf Huth Carola Gräfin v. Schmettow

NAMES AND ADDRESSES

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SIGNATURE PAGE

HSBC Trinkaus & Burkhardt AG — Düsseldorf, **28 August 2009**

By: Sabine Schüngel	By: Marina Eibl