REGISTRATION DOCUMENT

13 July 2010

HSBC Trinkaus

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

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RISK FACTORS

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

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

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

RESPONSIBILITY STATEMENT

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

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

GENERAL

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

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

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

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

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

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INFORMATION RELATING TO THE ISSUER

Statutory Auditors

Name and Address

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

Change

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

History and Development of the Issuer

Legal and Commercial Name of the Issuer

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

Registration of the Issuer in the Commercial Register

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

Incorporation of the Issuer

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

Registered Office and Legal Form of the Issuer

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

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

No such events are known.

Rating

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

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

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

The rating agency Fitch Ratings Ltd. has set the long term rating of the Issuer at "AA" and the short term rating at "F1+". The outlook is stable. (Source: www.fitchratings.com)

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

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

Business Overview

Principal Activities

Principal activities of the Issuer

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

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

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

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

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

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

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

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

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

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

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

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

New Products and Activities

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

Principal Markets

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

Basis for Statements on the competitive position

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

Organisational Structure

Membership in a Corporate Group

The Issuer is a part of the HSBC Group, the top company of which is HSBC Holdings plc, London, which in turn holds indirectly 80.43 % of the shares in the Issuer.

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

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

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

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

Dependency on other Members of the Group

The Issuer is part of the HSBC Group. The Issuer is directly dependent within the meaning of § 17 German Stock Corporations Act (*Aktiengesetz*, "AktG") on HSBC Germany Holdings GmbH, Düsseldorf, which holds 80.43% 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 2009.

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 § 4 paragraph 1 of the One-Third Participation Act (*Drittelbeteiligungsgesetz of 18 May 2004*), 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, Chairman, Europe and the Middle East 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 Inc., Bethlehem/USA B. Braun Medical Industries Sdn. Bhd., Penang/Malaysia B. Braun Medical International S.L., Barcelona/Spain B. Braun Medical S.A., Barcelona/Spain B. Braun Milano S.p.A., Milan/Italy B. Braun of America Inc. Bethlehem/USA B. Braun Surgical S.A., Barcelona/Spain Carl-Zeiss-Stiftung, Heidenheim/Jena Findos Investor Fund I GmbH & Co. KG, Munich Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main, IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman) Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main

	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 EWE Aktiengesellschaft, Oldenburg IVG Immobilien AG, Bonn Siemens AG, München VNG – Verbundnetz Gas AG, Leipzig Volkswagen AG, Wolfsburg
Timo **Grütter***, Wesel Bank Employee	
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 M 3 GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman)
Mandates in supervisory boards and comparable control bodies:	HSBC Trinkaus Real Estate GmbH, Düsseldorf (Chairman)
Harold **Hörauf**, Eggstätt former personally liable partner HSBC Trinkaus & Burkhardt KGaA (now HSBC Trinkaus & Burkhardt AG)	
Mandates in supervisory boards:	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf (Chairman) Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA (Chairman)
Mandates in supervisory boards and comparable control bodies:	BVV Pensionsfonds des Bankgewerbes AG, Berlin BVV Versicherungsverein des Bankgewerbes a.G., Berlin

	BVV Versorgungskasse des Bankgewerbes e.V., Berlin
Oliver **Honée***, Essen Bank Employee	
Prof. Dr. Ulrich **Lehner**, Düsseldorf Member of the Shareholder Committee 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
Mandates in comparable control bodies:	Dr. August Oetker KG, Bielefeld Henkel AG & Co. KGaA, Düsseldorf Novartis AG, Basel/Switzerland
Mark **McCombe**, Chief Executive Officer Hong Kong The Hongkong and Shanghai Banking Corporation Ltd, Hongkong	
Hans-Jörg **Vetter** Chairman of the Management Board Landesbank Baden-Württemberg, Stuttgart	
Mandates in supervisory boards:	LBBW Immobilien, Stuttgart (Chairman)
Mandates in comparable control bodies:	DekaBank Deutsche Girozentrale, Frankfurt Deutscher Sparkassenverlag GmbH, Stuttgart LBBW Equity Partners GmbH & Co. KG, Munich LBBW Equity Partners Verwaltungs GmbH, Munich Stiftung Schloss Neuhardenberg GmbH, Berlin

* Representatives of the employees

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

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

Members of the Management Board

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

Andreas **Schmitz** Banker, Willich Spokesman	
Mandates in supervisory boards:	Börse Düsseldorf AG, Düsseldorf (Chairman)
Mandates in control bodies which are comparable to the supervisory board:	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf L-Bank, Karlsruhe Liquiditäts-Konsortialbank, Frankfurt/Main (Likobank) KfW-Bankengruppe, Frankfurt
Paul **Hagen** Banker, Düsseldorf	
Mandates in supervisory boards:	Düsseldorfer Hypothekenbank AG, Düsseldorf Falke-Bank AG i.L., Düsseldorf
Mandates in comparable control bodies:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Vice-Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg HSBC Transaction Services GmbH, Düsseldorf (Chairman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf RWE Supply & Trading GmbH, Essen SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH
Dr. Olaf **Huth** Banker, Wermelskirchen	
Mandates in control bodies which are comparable to the supervisory boards:	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg (Vice-Chairman) HSBC Trinkaus Real Estate GmbH, Düsseldorf (Vice-Chairman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Carola Gräfin **von Schmettow** Banker, Düsseldorf	
Mandates in comparable control bodies:	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf (chairwoman) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg HSBC Trinkaus Investment Managers SA, Luxembourg (chairwoman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (chairwoman) 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 € 75,384,617.25; it is divided into 28,107,693 bearer shares which are fully paid in.

HSBC Germany Holdings GmbH holds a direct participation in the share capital of the Issuer of 80.43%, and the Landesbank Baden Württemberg, Stuttgart, indirectly holds a participation of 18.86% through its 100% intermediate holding company, LBBW Banken-Holding GmbH. The sole shareholder in HSBC Germany Holdings GmbH is HSBC Bank plc, London, which conducts the operative banking business in Great Britain. HSBC Bank plc, in turn, is a 100% subsidiary of HSBC Holdings plc with its registered office in London. Thus, the Issuer is a directly dependent enterprise of HSBC Germany Holdings GmbH and an indirectly dependent enterprise of HSBC Holdings plc within the meaning of § 17 AktG.

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

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

Agreements with regard to possible Changes of Control

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

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

Historical Financial Information

On this point, see Annex A annual financial statements and management report 2009 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2009 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2008 (consolidated financial statements pursuant to IFRS) in which the historical financial information for the fiscal years 2008 and 2009 of the Issuer are stated.

Annual Financial Statements

In this regard, see Annex A annual financial statements and management report 2009 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2009 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2008 (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 2009 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as the consolidated financial statements for the years 2009 and 2008 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 31 March 2010. The interim report of the Issuer has been neither audited nor reviewed by the auditor.

Legal and Arbitration Proceedings

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

Significant Change in the Issuer's Financial Position

Since the end of the last financial period for which the interim report of the HSBC Trinkaus & Burkhardt Group as of 31 March 2010 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 2009 according to IFRS, individual financial statements 2009 according to the German Commercial Code (*Handelsgesetzbuch*), consolidated financial statements 2008 according to IFRS), as well as the interim report as of 31 March 2010 which was not subject to an audit and was also not reviewed by an auditor; and

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

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

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

Contents of the Annexes

ANNEX A

The Annual Financial Statements and Management Report 2009 (individual financial statements)

The Annual Financial Statements and Management Report 2009 (individual financial statements) are reproduced on the following pages and separately paginated (83 pages, from page A - 2 through page A - 84).

Annual Financial Statements and Management Report 2009

HSBC Trinkaus

Annual Financial Statements and Management Report 2009

HSBC Trinkaus & Burkhardt AG

Date of issue: April 2010

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Group Management Report

Structure and Management

The Group

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

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

* renamed, formerly International Transaction Services GmbH (ITS)
** joint venture with HSBC Global Asset Management (France), Paris, established in 2009

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

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

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 2009 financial year.

This report concludes with the following 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 are purely formal in nature.

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provisions 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 9 June 2009, 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 2010.

The company has entered into no significant agreements which are subject to a change in the control of the company as a result of a takeover bid. The company has also not concluded any compensation agreements with 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 2009 financial year were Dr. Sieghardt Rometsch (Chairman), Stuart Gulliver and Harold Hörauf. The Personnel Committee met four times in the 2009 financial year. With the Act on the Appropriateness of Management Board Compensation (VorstAG) the German Stock Corporation Act (AktG) has been amended to the effect that the entire Supervisory Board must now decide on the compensation of the Management Board. The rules of procedure for the Supervisory Board were adapted to the amended legislation in November 2009 as a result of which the Personnel Committee now only has an advisory function with a view to the compensation of the members of the Management Board.

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

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, 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 components. 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 HSBC Group profit for the year. 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. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013.

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

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2009 financial year can be found in the Notes.

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

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

The compensation of members of the Supervisory Board in the 2009 financial year is reported in the Notes.

The Business Divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are assisted by Florian Fautz, Trevor Gander and Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)

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

Central Functions B

Paul Hagen
Management Board

Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Management Board

Private Banking

Division II

Andreas Schmitz
Management Board

Syndicate/Issuing Business

Florian Fautz
Member of the Executive Committee

Investment Banking

Manfred Krause
Member of the Executive Committee

Corporate Banking
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

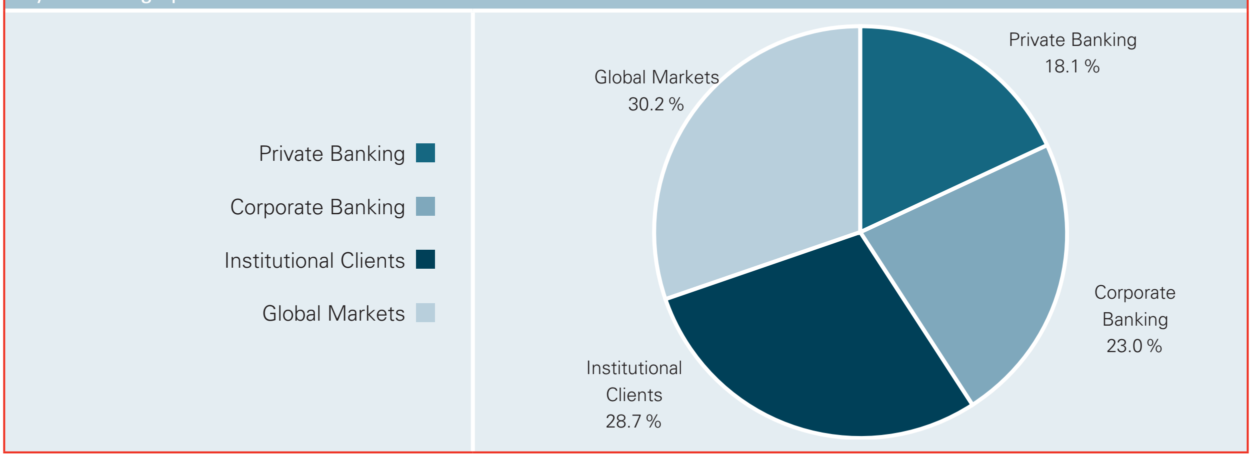
Credit
Operational Risk

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 € 19.5 million net costs incurred by head office functions during 2009, as against € 25.6 million for 2008, the 2009 operating profit was € 196.4 million (2008: € 200.6 million*). Mean contributions to profits over the last five years reveal a balanced picture:

5-year average profit contributions



Strategic Direction

The ongoing crisis continues to put major pressure on the economy and the financial markets in the 225th year of our history. However, the focus of crisis management is now being shifted away from short-term bailout measures towards a long-term reorientation of the financial markets that can even include major shakeups.

Governments and central banks had to act primarily as a rapid deployment force last year and, in order to stabilise the system, save banks irrespective of the quality of their business model. In Germany, this even led to the nationalisation of one individual institution which attracted major media attention. The primary task of governments, regulators and central banks will now be to create an internationally valid framework which allows the banks with a functioning business model to place themselves on a stable foundation again and which forces the banks without a sustainable business model to consolidate or wind up. This framework will have to guarantee at the same time that an incipient crisis of this dimension can be identified and prevented in future. A second major challenge the central banks will have to face is the controlled withdrawal of the large amounts of liquidity which were pumped into the markets last year.

Even though the banks appear to be gradually recovering, economic indicators are already giving off positive signals again and there has been no sharp increase in unemployment so far, we nevertheless do not expect the German economy to declare the crisis over in 2010.

The slump in overall economic output of around 5 % in the year of crisis in 2009 is reflected in the financial statements of many companies now being published. In regional terms, the percentage is far higher in individual cases.

This of course feeds through to the companies' credit standing, which in turn has repercussions for the banks' capital requirements with respect to lending. Consequently, their ability to grant new loans will be limited precisely at the moment when a possible upswing has to be financed. Politicians and bankers will accordingly have to continue to work hand in hand to avoid a credit squeeze and provide the basis for an economic recovery.

HSBC Trinkaus' position proved itself again in 2009. This shows that the business model functions not only in good times, but also – in contrast to many other financial institutions – in the severest financial and economic crisis since the Great Depression of 1929.

Based on a traditionally conservative stance, HSBC Trinkaus has developed and cultivated the ability to adapt to changes in the markets in good time and adjust its business model accordingly.

The overall economic environment will remain a challenge for HSBC Trinkaus and the entire sector in the months ahead and beyond as well. But it is exactly in this market situation that our strengths come into their own more than ever before. Our proven business model with its consistent orientation to clearly defined target groups and risk-aware trading will continue to form the basis for successful business performance. In addition, as a member of the HSBC Group we offer "the best of both worlds", namely the continuity, professionalism and individuality of a private bank together with the international service capacity and capital strength of a global financial services provider.

With this unique combination in the German banking landscape, we have been able to position ourselves especially in the financial market crisis as a trustworthy and solid partner, strengthen the commitment of our existing clients and acquire many new clients.

We want not only to consistently continue on this path, but also to use the opportunities arising for a globally operating bank on account of the distortions on the German banking landscape even more selectively through targeted investments in the market. The focus here lies on growth in the business with the upper and in particular the internationally oriented SME segment as well as the business with wealthy private clients. In addition, we will make targeted efforts to strengthen our product range in the institutional business so that we can do even more justice to our claim of being a core bank in this client segment as well.

Irrespective of this, we will continue to pursue our proven, conservative risk policy during this growth – true to the motto: we grow with our clients, not with our risks.

On the product side, we naturally offer our clients all the services of the traditional banking business, but we also distinguish ourselves in particular by the fact that we stand by them in solving complex problems on the national and international level. We are traditionally strong in the entire product range of the securities business, in interest rate and currency management, in international services and asset management as well as in the individual servicing of wealthy private clients. Our expertise in the capital and credit markets is also appreciated and used by our clients. By continuously updating our information and communication system, we ensure the most advanced banking technology and services of the highest quality in all product segments.

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

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

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

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

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

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

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the powerful product range and the respective regional networks in 88 countries.

The success of this strategy depends on whether we continue to satisfy the following conditions:

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

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

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

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

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

Future needs tradition. In this respect we are very pleased to be able to celebrate the 225th anniversary of the Bank's foundation this year. Our anniversary motto is at the same time an expression of the stance we take: Committed to values.

The 2009 Financial Year

The Economic Environment

The global economy got off to anything but a successful start in 2009. The major loss of confidence in the economy as a result of the financial crisis brought about a breakdown in investment activity and a slump in world trade in the months around the turn of the year. The latter made itself felt in particular in Germany, which suffered a decline in gross domestic product (GDP) compared to the previous quarter of 3.5 % in the first quarter of 2009 owing to its major dependence on the export sector. There were even fears at this time that the global economy was facing a depression. However, the international coordination of monetary and fiscal policy was able to put a stop to the downward spiral. For example, the European Central Bank (ECB) lowered the key interest rate to 1.0 % by May and made unlimited liquidity available to the banking system over the entire year. The promise to prevent the insolvency of further system-relevant banks made within the scope of the G20 meeting in London at the beginning of April in particular made a significant contribution to restoring confidence.

The Asian region, which was the quickest to return to its growth path thanks to high savings ratios, a solid banking system and major government economic aid turned out to be the driving force behind the ensuing upswing. The German economy was also able to grow again in the second quarter thereby putting an end to its recession. The eurozone only managed to return to its expansion path in the third quarter. In addition to the stabilisation of world trade, the increase in sales in the automotive industry as a result of the wrecking bonus made a particular impact in Germany. The labour market was a further reason for the relatively solid private consumption in Germany. Considering the strength of the economic slump, there was only a moderate increase in unemployment. The short-time working benefits introduced by the government made a significant contribution to this development. The expenditure resulting from this and other measures to support the economy led to a major budget deficit in relation to GDP of 3.2 % in 2009. On the bottom line, there remains a sobering balance for the 2009 business year with a decline in German GDP of around 5 %. The pressure on prices remained weak in this environment, with consumer prices increasing by only 0.4 % on average for the year.

The rescue packages introduced by governments and central banks throughout the world also left their mark on the financial markets. After getting off to a weak start, greater investor confidence led to the DAX ending 2009 with an increase of around 24 %. Significant price gains were also achieved with corporate bonds owing to a significant reduction in risk premiums. Driven by low central bank and money market rates among other things, European government bonds also ended the year with a clearly positive performance.

Profitability

With our profit from ordinary activities of € 180.7 million and a net profit for the year of € 125.9 million, HSBC Trinkaus achieved a very solid result in the year under report, providing evidence of the strength of our effective and client-oriented business model. This result enables us to pay an unchanged dividend compared to the previous year of € 2.50 per share and further strengthen reserves. In the previous year the conversion to the risk-adjusted market value approach led to a beneficial non-recurring item of € 170.5 million before taxes. This means that profit from ordinary activities was down by 36.9 % and net profit for the year down by 38.6 % year on year; adjusted for this non-recurring effect, however, a significant improvement in earnings was realised. At 68.3 % the cost/income ratio as a major indicator of success remained within the adequate range for our business model of 65 % to 70 %.

The impact of our business model on the 2009 result varied considerably: On the one hand we were able to grow further in the business with corporate and institutional clients as well as trading and expand our market position significantly in part. Benefiting from our financial strength, we were able to use the opportunities resulting from the major changes in the banking landscape. We want to stay resolutely on this course, especially as the consolidation of the banking markets has only just begun. At the same time, however, we will continue to weigh risks and opportunities carefully while ensuring that every client relationship is profitable.

On the other hand, we suffered a decline in revenues in the private banking business and had to make a considerable addition to net loan impairment and other credit risk provisions in the corporate banking business for the first time in many years. Revenues in the private banking business declined due above all to the low interest rate policy pursued by the central banks, the resulting sharp reduction in margins in the deposit business as well as the restraint shown by investors in this uncertain stock market environment. Nevertheless, with our sustained client orientation and deliberately cautious market operations we see good opportunities for us to grow further in this client segment as well, also benefiting at the same time from changes in the competition.

We continued to apply strict standards to net loan impairment and other credit risk provisions, carefully considering the still difficult economic environment in Germany with a further addition to collectively assessed impairments.

The individual items of the income statement developed as follows:

Net interest income was up 25.5 % to € 289.4 million. This reflects widely differing trends in our business:

- There was a sharp decline in margins in the deposit business on account of the central banks counteracting the economic crisis with an easy money policy. We deliberately reduced the volume of deposits as we make no comprises with respect to the profitability of our business given our extremely good liquidity situation.

- On the other hand, margins in the lending business improved significantly owing to a clear move towards risk-adequate prices. Credit volumes declined slightly on average for the year as our clients have only relatively minor borrowing requirements in the current cyclical phase and have significantly tightened their working capital management. Order intake picking up again will lead to significantly greater borrowing requirements. We were able to increase our market share as we further expanded the business with clients with a good financial standing on a targeted basis thanks to our good capitalisation.

- Interest income from securities in the liquidity reserve benefited in particular from our very good liquidity position.

At € 28.5 million (2008: € 18.8 million), current income from shares and other non-fixed-income securities related to dividends on shares in the trading book. They must thus be seen in connection with the net result from financial transactions. Net income from profit transfer agreements declined by 52.5 % to € 26.6 million, mainly on account of a substantial drop in the earnings of HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH. Last year this company's earnings were marked by current income from interests in subsidiaries and also, in particular, by income from the sale of interests in subsidiaries totalling € 27.8 million, for which there were no corresponding earnings in the year under report.

At € 202.1 million in the year under report (2008: € 207.9 million), net commission income remains on a high level and is by far the most important earnings component. Widely differing trends in our business are reflected here as well:

- In the securities business we were almost able to repeat last year's result of € 100.7 million with net commission income of € 99.1 million, despite a weak first half. The consistent expansion of our depositary bank business made a significant contribution to this result. On the other hand, there was a substantial reduction in Asset Management revenues as the willingness of wealthy private clients to take risk and the risk-bearing capacity of institutional investors were not very pronounced.

- There was a notable decline in net commission income from foreign exchange transactions and derivatives. The achievable margins in both the foreign exchange business and the business with interest rate and equity derivatives were significantly below the high prior-year level.

- In the traditional banking business such as credit business and payments there was a substantial increase in net commission income as we were able to use changes in the competition to our benefit. On the other hand, in the foreign business we were only able to partly compensate for the decline in the German economy's foreign trade with more risk-adequate margins.

- There was strong growth in the results in the issuing and structuring business in the year under report as we were represented very prominently in a large number of bond syndicates thanks not least to the strong placement power of the HSBC Group.

In the year under report a charge of € 91.6 million was recorded on financial transactions, whereas an income figure of € 115.5 million was recorded on balance in the prior year. In this connection it must be remembered that last year a non-recurring profit of € 170.5 million was generated in the previous year from the switch to the risk-adjusted market value approach. Interest and dividend income and funding costs from trading items will continue to be shown under net interest result or current income from shares. Our proprietary trading activities remain focused on trading with equity-related products. We were once more able to gain market shares here in the retail business under our HSBC Trinkaus brand. The market for these products has become far smaller overall, above all with respect to products with a capital guarantee and other investment certificates. However, as we are traditionally very strong with products for investors who are very close to the market and participate actively in trading, this decline only affected us far less than proportionately. In foreign exchange trading we were not able to repeat the very good prior-year result as the margins tended to weaken again after the rise the previous year. By contrast, we were able to generate an exceptionally good result in interest-rate trading. Firstly, money market trading was again able to achieve a very good result on account of our liquidity position and client-related trading with registered Pfandbriefe, and promissory note loans also fared far better than in the previous year. Secondly, the bond portfolios also gave a particularly pleasing performance. The spread widening with respect to public-sector bonds, Pfandbriefe and bank bonds in the previous year was now largely followed by significant spread narrowing. The resulting strong valuation gains led to extraordinarily good net trading income. Since the markets have calmed down to a large extent in the meantime, we see the past two years as characterised by crisis and therefore not representative of our result from interest rate trading.

Other operating income rose 14.5 % to € 32.3 million; as in the previous year, this did not include any non-recurring items and essentially comprised income from the provision of services for subsidiaries, rental income and income from the release of provisions.

We were able to reduce general administrative expenses slightly, by 0.2 % to € 293.5 million. This includes a 0.9 % decline in personnel costs to € 189.2 million, which results mainly from lower expenditure for wages and salaries. By contrast, in the wake of the economic crisis the contribution to the Pension Security Association was significantly larger than in the past. Thanks to our resolute cost management other administrative expenses rose moderately by 1.1 % to € 104.3 million. The general cost increases across almost all units were largely offset by means of strict cost discipline, despite a higher contribution to the deposit guarantee fund. Depreciation, adjustments and amortisation came to € 9.1 million and were thus roughly in line with the previous year.

Other operating expenses rose from € 6.0 million to € 18.9 million. The creation of a provision for placement risks in the property business made a major contribution to this increase.

In cross-segment compensation we recorded net expenses of € 1.3 million, down from € 71.5 million in the previous year. Lending business showed a net loss after generating a net profit in the previous year. Both individually assessed value adjustments and collectively assessed value adjustments were increased significantly. On the other hand, we were able to reverse several individual value adjustments again in the year under report. Overall, we continue to apply strict standards in relation to the assessment of default risks. The further course of the economic crisis will present a particular challenge to risk management in the lending business in the entire banking sector since the number of insolvencies is a lagging economic indicator. Last year the result from securities in the liquidity reserve was marked by the dramatic decline in share prices as a result of the financial markets crisis. By contrast, in the year under report significant net income from securities in the liquidity reserve was generated. To quite a considerable extent the income was due to write-ups on investment funds as a reversal effect for the write-downs performed last year in the wake of the financial markets crisis.

In the cross-segment comparison for interests in subsidiaries, write-ups predominated during the year under report whereas in the previous year write-downs were greater than write-ups and capital gains. By contrast, the result from the assumption of losses showed a marked deterioration in comparison with the previous year.

The Asset Situation

Total assets declined by 13.3 % in the year under report to € 15.2 billion. On the assets side, there was a decline in particular in debt instruments and other fixed-income securities compared to the previous year of 19.1 % to € 6.8 billion. Loans and advances to customers were down by 20.1 % to € 4.5 billion and loans and advances to banks by 5.7 % to € 1.9 billion. By contrast, shares and other non-fixed-income securities were up 49.0 % to € 1.3 billion.

The holdings of debt instruments and other fixed-income securities declined considerably, mainly because investments within the HSBC Group were significantly reduced. These were mainly of a very short-term nature and served primarily for temporary investment of the extremely large size of customer deposits at the previous year-end. The debt instruments and other fixed-income securities consist mostly of public-sector bonds that are classed as eligible assets and can therefore be used to create liquidity at very short notice. Short-term realisability and eligibility is also an important decision criterion in the trading books. Our interest-rate trading books include no positions resulting from acquisition financing or other transactions for which there is no longer a market today. The Bank has constantly avoided so-called toxic products.

There are various reasons for the decline in loans and advances to customers. The lower lending requirements of our clients were a significant factor here first of all since we continued to pursue our strategy in the client lending business of growing with our clients and dispensing with synthetic lending business. Even as times have become difficult, HSBC Trinkaus is a reliable partner for its clients and will remain so even in the event of a cyclical recovery and the higher borrowing requirements associated with it. The discontinuation of special transactions as well as the balance-sheet-date-related decline in the volume held on current accounts strengthened the effect with respect to loans and advances to customers. The decline in loans and advances to banks was mainly balance-sheet-date-related, with a large part of the decline attributable to deposits at other HSBC units. The increase in shares and other non-fixed-income securities results from substantially higher holdings of shares in the trading book.

On the liabilities side, there was a decrease above all in customer accounts of 25.7 % to € 7.9 billion. The recovery of the capital markets led to an increase in the level of investment of the investment funds clearly at the expense of short-term deposits. Furthermore, we deliberately reduced the size of the deposits because we make no compromises with respect to the profitability of our business. Our balance sheet is nevertheless still characterised by very high levels of customer deposits which far exceed our client lending business and account for a good 50 % of total assets. Thanks to these excellent liquidity resources we were able to pursue our growth targets undeterred.

Financial Position

The Bank's liquidity position was very good throughout 2009. We deliberately hold large safety buffers with respect to the quantitative regulatory requirements relating to minimum liquidity with an average of 1.84 for the end-of-month positions according to the Liquidity Ordinance. In addition, we developed our monthly simulation calculations for the management of liquidity under normal and under stress conditions in close cooperation with the HSBC Group in the year under report. We have documented the main guidelines of our liquidity risk management in a comprehensive liquidity risk strategy.

Since 1 January 2008 we have been calculating the regulatory capital requirements according to the rules of the German Solvency Regulation (Solvabilitätsverordnung), via which the Basel II framework was adopted into national law. HSBC Trinkaus uses the internal rating-based approach for counterparty risk and the basic indicator risk approach for operational risk. We further improved processes and attached greater importance to the consideration of security in the year under report.

In a reporting date comparison, HSBC Trinkaus & Burkhardt AG's positions requiring equity backing according to the regulatory provisions declined overall by 9.6 % to € 7.1 billion. The credit risk positions requiring equity backing declined by 13.7 % to € 5.4 billion. This is primarily the result of the optimisation of our credit portfolio as well as the extended use of credit (risk) mitigation techniques. The backing for market risks remains almost unchanged while a significant increase in backing for operational risks of 17.2 % to € 0.8 billion was required in accordance with the regulatory requirements owing to our positive trend in earnings in recent years.

No capital measures were carried out in 2009. However, HSBC Trinkaus & Burkhardt AG transferred € 130 million from the previous year's profit available for distribution to retained earnings and repaid profit participation capital totalling € 35.8 million on schedule in the year under report. We therefore see ourselves as still being well equipped for the challenges presented by the banking business in Germany on the one hand and for further growth on the other. After the appropriation of profit HSBC Trinkaus shows a capital ratio of 16.3 % and a Tier 1 ratio of 11.2 %, which by far exceeds the banking supervisory requirements. We are in an excellent position even against the backdrop of the proposals to tighten the capital requirements for loan security currently being discussed in reaction to the financial market crisis. It should be taken into consideration here in particular that the Bank raised no hybrid capital, but strengthened the Tier 1 ratio exclusively from capital and reserves.

Outlook for 2010

The global economy started out on the road to recovery over the course of 2009 and will continue along it this year. It will be propelled along in particular by the global continuation of expansionary monetary and fiscal policy. Positive impetus should also come from the inventory cycle since inventories are still at a very low level. The role of growth driver will be taken on by the emerging markets, where economic output is likely to grow by 6.2 % in 2010. But developed economies should also expand by 1.9 % after suffering a decline in gross domestic product last year.

The German economy is likely to benefit primarily in the export sector from the recovery of the global economy in 2010, leaving the other major economic regions of the Eurozone behind it with seasonally and calendar-adjusted growth of 1.6 %. We are expecting aggregate GDP growth of 1.2 % in the Eurozone. In this respect, there is no sign of a rapid return to the level of economic output reached before the crisis. The utilisation rate will therefore remain low. As we are also assuming a further rise in the unemployment rate and a higher external value of the euro, we expect the low pressure on prices to continue. There is therefore no need for the ECB to take immediate action. Against this backdrop we are not expecting a significant increase in capital market yields.

The German banking sector is in the middle of a crisis of unforeseen proportions which several leading institutions will only be able to survive with the help of the federal government and federal states. Some banks have only been saved from insolvency because the government has provided them with support in the form of taxpayers' money going into billions. The collapse of Lehman Brothers exemplifies the extent of the systemic risk in the global banking system. The support measures adopted by governments worldwide have prevented the collapse of further banks at risk and therefore the exacerbation of the crisis.

There is intense discussion at present over the regulatory measures with which governments want to prevent such a financial crisis arising again. These measures will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on business with three clearly defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than those of banks with strong investment banking activities and major dependence on proprietary trading.

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

We therefore want to use 2010 and the years ahead to gain additional market shares in all business segments. The focus is on the significant expansion of business with SME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

The basis for this expansion strategy is:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities.

- integration in the HSBC group, one of the world's largest and most financially sound banking groups which, like HSBC Trinkaus, did not have to resort to support from government bailout packages.

- a strong own balance sheet with solid capitalisation and a good refinancing base.

An expansion strategy in an economic crisis means higher risks, but also greater opportunities. The drastic economic downturn has put pressure on the earnings situation and the capital position in several, particularly export-oriented, industries. We are convinced, though, that there are companies even in difficult sectors with major innovative power, clearly focused business models and ambitious management which will emerge from the crisis in a stronger position. We know that expanding the portfolio in particular with SME corporate clients entails risks in the current economic situation and could lead to greater risk provisioning expenditure. On the other hand, the credit margins already reflect this situation today at least in part. As other banks tend to withdraw, we are confident that we can grow in the market without lowering our credit standards.

We experienced favourable price gains on the stock markets and a good bond market performance especially in the corporate bond segment from the beginning of the second quarter of 2009. Both had a positive impact on bank income statements. However, we do not believe that this trend will repeat itself in 2010.

There will be a decline in the overall volume of bank revenues in Germany in 2010 which will also continue in the following years. We can therefore only increase our revenues by realising the targeted gain in market shares. Net interest income will play a more important role than in 2009 as income from fees and commissions will remain under pressure. The reasons for this are the uncertainties on the equity markets as well as the restraint and reduced willingness to take on risk shown by the clients. Strict cost management is decisive in this situation. We are expecting only a moderate increase in our administrative expenses in the years ahead, but will make sure at the same time that the infrastructure is lastingly strengthened by sufficient investments. We plan to increase our operating profit compared to 2009 and assume that we can experience a positive trend in operating profit in the following years as well.

The precondition for this is that stock market prices do not fall sharply again, for example as the result of a double dip which the economy could suffer when the government economic support programmes come to an end. In addition, the pressure arising from credit risks is not likely to grow significantly beyond the level of risk provisioning in 2009. We anticipate that the credit ratings of individual companies to which we are linked via medium- and long-term financing commitments will deteriorate in 2010. This applies in particular to the export-oriented sectors. As our credit portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast. Firstly, negative repercussions on the money and capital markets with a corresponding decline in our securities commission would then be expected. Secondly, doubts over the stability of banks with a high exposure in problem countries could develop into a systemic risk.

We regard a target cost:income ratio ranging between 65 % and 70 % as adequate for our business model as a universal bank with a wide range of products. With a ratio of 68.3 % we were in the target corridor in 2009. For the current financial year and for 2011 we again anticipate a ratio in the upper half of the corridor.

We are expecting differing trends in each of our client segments. Revenues in the business with wealthy private clients declined in 2009. We hope that our efforts to acquire new clients will lead to higher revenues. The performance we are expecting in important assets classes will presumably make broad diversification of assets even more important than to date. We are confident that we will be able to expand our market position and are open to acquisitions in this client segment. Based on the good performance of our clients' assets, the concentration on the professional management of large assets and our broad service offerings, we have strong arguments on our side.

HSBC Trinkaus' collaboration with the globally active HSBC Group puts the Bank in a unique position in the Corporate Banking business. In recent years HSBC Trinkaus has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Foreign competitors are withdrawing from the market as the capital support they received has made them dependent on their governments and they are having to concentrate on business in their domestic market as a result. This withdrawal presents a particular challenge for the supply of loans to the German Mittelstand. Our new expansion strategy, which also includes an extended service offer, will enable us to further increase our credibility as a reliable partner in the corporate banking business. The procyclicality of Basel II, as well as the expected further deterioration in the credit ratings of export-oriented clients in particular, will lead to an increase in capital backing in the lending business. We have already made allowance for this in our strategy. The growth in our client base in recent years together with our new expansion strategy suggests that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The currently low interest-rate environment is making it difficult for many institutional investors to achieve their target returns. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. As we have taken a cautious approach to high-risk structures, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available to our clients. We also have direct access to the global trading books, which also enable large-volume transactions and the assumption of risk, and can thus offer added value. We can only offer our clients limited risk capital for new investments in 2010. Owing to this and the slow-down in momentum in the debt capital market business, we expect transaction volumes and the associated earnings contribution to decline.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. We benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is far below the high volume seen in previous years and is limiting the earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2009. The earnings contribution in the Treasury business is likely to be significantly weaker as further interest rate cuts are hardly to be expected.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration into the HSBC Group. In order to avoid operational risk, we will introduce additional business process controls, even if this is accompanied by further costs. It is obvious, though, that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs. We therefore want to make greater use of the service centres of the HSBC Group in 2010 and the following years also for other areas of the Bank based on our very positive experience in IT.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 10 % of risk assets enables the return-oriented expansion of our business. At the same time, we are in the position if need to be able to carry out a capital increase for earnings-oriented growth. We will carefully observe the effects of regulatory changes which could lead to increased capital requirements. Where necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depository bank activities.

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

Risk Management

Definition

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

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 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. Reducing risks to our reputation is one of the basic approaches with respect to our business policy. We avoid liquidity risk as far as possible and are prepared to accept lower profits as a consequence.

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

Since the beginning of the banking crisis, the old principle of "liquidity before profitability" has justified itself in a drastically changing market environment. This was shown clearly by the spectacular collapse of the US investment bank Lehman Brothers and the numerous government support measures introduced for individual banks in financial difficulties. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2009 as well. We extended our liquidity reserves and paid strict attention, when investing the funds accruing in the money and capital market, to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds.

The second central challenge facing our risk management was and is managing counterparty risk. When the crisis started in the second half of 2007, the primary focus to begin with was on the counterparty risks of other financial market participants; these risks were mitigated later on by government equity support and assistance with liquidity and replaced by an increasingly critical view of country risks. The problems in Iceland in 2008 and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public. Even the solvency of Eurozone member states was, and is again at present, being questioned.

The impact of the economic downswing on corporate lending came more to the fore in 2009. Corporate credit ratings deteriorated on account of the recession, and this trend continues. This will put the banks' corporate lending portfolios under major pressure in 2010 as well, a development we take into consideration in our credit risk management.

HSBC Trinkaus' market risk management was faced with a major challenge until early 2009. The situation eased then considerably from April 2009 on. In trading with derivative equity products, we were able to expand our market share by quoting reliable prices for warrants and certificates at all times. This involved an increase in gap risks which we were easily able to integrate into the Bank's capacity to assume risk, though. The trading books for controlling throughout the Bank suffered substantially in the first three months of 2009 from the widening of spreads, which was not expected to this extent. However, they recovered over the further course of the year in line with the market trend. We will continue to develop the limit system based on this new experience.

What we are observing overall is that the higher risk in nearly all areas of the banking business since mid-2007 requires an increase in risk premiums.

Risk Management – Organisational Structure

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

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

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

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

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

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

We implemented the new minimum requirements for risk management (MaRisk) on time at the end of 2009. We are preparing ourselves actively for the new requirements relating to liquidity risk.

Strategic Risk

By strategic risk we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. Stragegic risk results primarily from the Bank's strategic orientation. HSBC Trinkaus is particularly exposed to such risks as there is strong competition for our clients in the market 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. 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. The risk premiums for counterparty risk have increased in the market in general and are tending to allow the risk-adequate pricing of banking services at present, although this trend is already starting to wane again. However, if the adjustment of risk premiums on account of government support is not lasting, it will mean the systematic distortion of the competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation.

We made no substantial progress with the further modernisation of our IT architecture in 2008 as resources were tied up for the implementation of the flat-rate withholding tax. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the deployment of substantial human and financial resources in future as well. These investments will be accompanied by increased expenses for third-party licence and maintenance fees and write-downs on software and hardware leading to a further significant increase in the Bank's cost base. We completed the relocation of the computing centres to more modern locations with far greater operational security in the year under report. As a result, operational risk has been reduced, but the cost base has risen.

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

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

On a positive note, the Bank's strategic orientation has proven itself in the current crisis.

Counterparty Risk

(a) Organisation of the credit processes

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

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

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

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

We comply consistently wit 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.

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 collateral agreements if required. In the private banking business, an internal risk assessment is carried out on expert level and a credit score assigned accordingly. However, the lending business is of minor importance in this client segment and is carried out on a collateralised basis as a rule.

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

The rating systems for large international corporations, banks and financial service providers werer 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. We set up a loan impairment provision is set up for 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 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, doubtful or problematic debts, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

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

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

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

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

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

(b) Maximum default risk

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

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

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

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

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Loans and advances	**5,116.9**	**22.6**	**7,062.3**	**26.8**
to banks	2,429.4	10.7	2,979.7	11.3
to customers	2,687.5	11.9	4,082.6	15.5
Trading Assets	**9,546.8**	**42.2**	**11,947.8**	**45.3**
Bonds and other fixed-income securities	4,839.7	21.4	6,945.4	26.3
Equities and other non-fixed-income securities	832.4	3.7	383.7	1.5
Tradable receivables	1,917.2	8.5	2,001.6	7.6
OTC derivatives	1,542.9	6.8	2,223.4	8.4
Reserve repos/securities lending	72.6	0.3	74.4	0.3
Cash deposits	346.6	1.5	319.3	1.2
Financial Assets	**3,126.1**	**13.8**	**2,118.8**	**8.1**
Bonds and other fixed-income securities	2,567.4	11.3	1,720.1	6.6
Equities	29.8	0.1	21.4	0.1
Investment certificates	145.3	0.6	142.6	0.5
Promissory note loans	277.3	1.2	127.6	0.5
Interests in subsidiaries	106.3	0.5	107.1	0.4
Contingent liabilities	**1,569.2**	**6.9**	**1,747.5**	**6.6**
Loan commitments	**3,290.2**	**14.5**	**3,489.2**	**13.2**
Total	**22,653.8**	**100.0**	**26,365.6**	**100.0**

(c) Collateral and other risk-reducing techniques

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

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

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a programme which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. If no valuation is available for certain securities, then an individual decision is made with the help of a credit analyst as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are excluded from this. A valuation or an account/securities account statement for these guarantees is obtained from the third-party bank on a regular basis, but at least once a year.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract. In contrast, assigned receivables and transfers of title to physical objects as security are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when valuing assignments the legal status of the pledge and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location and the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is stipulated which is applied to the receivables portfolio and/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 examined at regular intervals. With charges on property, the property serving as security is to be revalued after five 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, however. As regards assignments and transfers of title as security, it is to be determined by the persons responsible how often and to what degree of detail corresponding proof of collateral is to be submitted by the customer.

The collateral value is automatically taken into consideration in the risk statement in respect of valued collateral.

If the collateral requirement for a credit line has not been fulfilled, i.e. either no collateral has been allocated in the system or the value of the collateral falls below the minimum value kept in the system, the line system reports that the credit line has been exceeded.

(d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

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

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,979.7	4,020.5	1,739.1	3,488.9	12,228.2
Overdue, but not impaired	0.0	1.9	0.7	0.2	2.8
Individually impaired *	0.0	60.2	7.7	0.1	68.0
Total	2,979.7	4,082.6	1,747.5	3,489.2	12,299.0

* Including the setting-up of 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	31.12.2009			31.12.2008		
	Trading Assets	Financial Assets	Total	Trading Assets	Financial Assets	Total
AAA	1,959.7	1,064.9	3,024.6	2,166.8	700.2	2,867.0
AA+ to AA–	1,823.8	910.6	2,734.4	3,897.1	682.3	4,579.4
A+ to A–	734.5	320.6	1,055.1	600.3	150.0	750.3
BBB+ to BBB–	41.8	146.6	188.4	18.3	103.0	121.3
Lower than BBB–	1.8	18.4	20.2	0.3	13.8	14.1
No rating	278.1	106.3	384.4	262.6	70.8	333.4
Total	**4,839.7**	**2,567.4**	**7,407.1**	**6,945.4**	**1,720.1**	**8,665.5**

OTC derivatives

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

		31.12.2009		31.12.2008	
		in €m	in %	in €m	in %
OECD	Banks	1,130.0	73.5	1,623.0	73.0
	Financial institutions	228.4	14.8	224.9	10.1
	Other	179.1	11.6	374.2	16.8
Non-OECD	Banks	0.7	0.1	0.0	0.0
	Financial institutions	0.1	0.0	0.0	0.0
	Other	0.1	0.0	1.3	0.1
Total		**1,538.4**	**100.0**	**2,223.4**	**100.0**

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

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto 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	31.12.2009				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Rating categories 1–2	2,134.9	932.3	715.6	1,331.1	5,113.9
Rating categories 3–4	294.5	1,432.3	839.3	1,945.6	4,511.7
Rating category 5	0.0	241.9	7.6	5.6	255.1
Total	2,429.4	2,606.5	1,562.5	3,282.3	9,880.7

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
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

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 € 0.6 million in the year under report (2008: € 1.9 million) and are exclusively to customers. € 0.1 million (2008: € 0.5 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. We made no corresponding impairments on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at € 0.1 million in the year under report (2008: € 0.5 million).

In addition, there are overdue, but not impaired claims resulting from excess interest of € 0.5 million (2008: € 0.4 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was € 0.5 million (2008: € 0.5 million).

There were no further overdue, but not impaired loans and advances to customers in the year under report (2008: € 1.0 million).

(g) Information on exposures for which loan impairment provisions have been set up

HSBC Trinkaus carries out loan impairment 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 a loan impairment provision has been set up. Loan impairment provisions set up to allow for country risks also include exposures with higher credit ratings. Loan impairment provisions for country risks stood at € 3.0 million in the year under report (2008: € 3.1 million).

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

in €m	31.12.2009			31.12.2008		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before individually assessed impairments *						
Rating categories 1–5	0.0	0.0	0.0	0.0	5.2	5.2
Rating category 6	0.0	74.4	74.4	0.0	51.1	51.1
Rating category 7	0.0	6.0	6.0	0.0	3.9	3.9
Total	**0.0**	**80.4**	**80.4**	**0.0**	**60.2**	**60.2**
IAI *						
Rating categories 1–5	0.0	0.0	0.0	0.0	3.2	3.2
Rating category 6	0.0	25.2	25.2	0.0	9.6	9.6
Rating category 7	0.0	4.3	4.3	0.0	2.2	2.2
Total	**0.0**	**29.5**	**29.5**	**0.0**	**15.0**	**15.0**
Book value before individually assessed impairments *	**0.0**	**50.9**	**50.9**	**0.0**	**45.2**	**45.2**

* IAI: individually assessed impairment

Within the scope of risk provisioning HSBC Trinkaus also makes credit risk provisions for individual contingent liabilities and loan commitments which amounted to € 3.2 million in the year under report (2008: € 5.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 13.4 million (2008: € 6.4 million) for loans and advances and € 3.6 million (2008: € 1.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 63.3 million (2008: € 43.7 million) as of the balance sheet date.

(h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 26.9 million (2008: € 38.3 million) in the year under report.

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

Collateral received and other credit improvements amounting to € 26.7 million were realised and drawn on, respectively, in the 2009 financial year (2008: € 11.3 million).

(j) Information on credit risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region.

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

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	9,439.0	41.7	12,584.9	47.7
Companies and self-employed professionals	8,068.7	35.6	9,191.2	34.9
Public sector	4,797.2	21.2	4,278.3	16.2
Employed private individuals	348.9	1.5	311.2	1.2
Total	22,653.8	100.0	26,365.6	100.0

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	15,483.2	68.3	18,120.5	68.7
Other EU (including Norway and Switzerland)	5,885.8	26.0	6,814.3	25.9
North America	650.2	2.9	314.1	1.2
Asia	472.4	2.1	632.1	2.4
South America	70.5	0.3	430.8	1.6
Africa	39.9	0.2	18.9	0.1
Rest of Europe	33.8	0.1	31.4	0.1
Oceania	18.0	0.1	3.5	0.0
Total	22,653.8	100.0	26,365.6	100.0

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 2,674.0 million (2008: € 4,579.1 million).

It can be seen from the breakdown by region that a substantial part of the loans and advances is concentrated in Germany as well as in EU countries including Norway and Switzerland. As the political situation and law and order are stable in these regions, no increased default risks are to be feared.

(k) Counterparty risk monitoring as required by the supervisory authority
A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus.

The Credit Risk Control department has evolved from this project group. As the counterparty risk monitoring unit required by the supervisory authority, this department is reponsible for the maintemance, monitoring and further development of the credit risks measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

(l) Credit portfolio management
The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks on portfolio level. For this purpose the Bank is still using a simplified portfolio model at present which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. We work very closely with the HSBC Group here and plan to introduce the portfolio model used on Group level in line with the market in the near future. The results of the risk-sensitive analysis of the credit portfolo are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

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

Operational Risk

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

HSBC Trinkaus has always attached major importance to the reduction of operational risk to a level which is acceptable from the point of view of the costs involved. The Operational Risks and Internal Control 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 and the entire HSBC Trinkaus Group.

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

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

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

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

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

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

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

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

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

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

Workflow descriptions of the individual business processes stipulate in detail which controls are built 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 the explanations in the Notes for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in the market parameters. With respect to interest rate risk we consider both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from non-financials in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates
- Zero interest rates for typical maturities from swap, government bond and Pfandbrief yield curves
- Equity and equity index option volatilities for typical maturities
- Foreign exchange options volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

The inclusion of further spread risks in the risk model is in the conception phase; we are aiming for approval by the supervisory authorities in 2010. Issuer-specific interest-rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits, including limits for sensitivities and special stress scenarios.

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

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

in €m	2008			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.5	1.9	4.0
Foreign exchange transactions	0.0	0.2	0.0	0.5
Equity/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**

Risks relating to interest rates and equities still represent the Bank's greatest market risks. As a result of the financial market crisis, there were far greater moves in the market on individual days. This led to higher risk parameters and therefore to slightly higher values at risk.

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

For the purposes of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. No back-testing anomalies were found throughout the Bank in 2009. After two anomalies in 2008, this suggests that the risk modeling employed is probably on the conservative side given the major distortions on the financial markets in the meantime.

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

Value-at-risk approaches are acknowledged as 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 HSBC.

The average market risk potential in the investment book (99 % confidence interval / 1-day holding period) came to € 3.5 million (2008: € 1.2 million). Market risks in the Bank's investment book are limited to interest rate as well as equity and other price risks. They are determined outside the risk models and are controlled at executive management level.

Liquidity Risk

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

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in oder to remain solvent at all times, even in the event of extreme events.

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

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2009	2008
31.12.	1.79	1.57
Minimum	1.63	1.51
Maximum	2.08	1.83
Average	1.84	1.61
Reference value in accordance with Section 2 LiqV	**1.00**	**1.00**

The ratio of loans and advances to customers to customer deposits is a further central ratio for managing liquidity throughout the Bank. It stood at 29.7 % (2008: 35.2 %) at the end of the year. There was no material concentration of liquidity risks with respect to assets and financing sources or in respect of foreign currencies.

The extent and composition of the liquidity cushion consisting of liquid funds and liquid assets is of central importance with respect to liquidity management. The cushion is meant to secure the Bank's financial solvency even given unexpected outflows of funds. The minimum amount of the cushion is derived from a stress scenario which shows a major outflow of customer deposits, the immmediate drawing on part of uncalled loan commitments, a decline in value of the debt securities held as collateral on account of market conditions and a strong increase in the collateral requirements of central counterparties. The scenario is meant to simulate the effect of a rating downgrade of up to three rating notches. The most important component of the liquidity cushion is the opportunity of refinancing at the central bank in order to cover unexpected liquidity requirements arising in the short term. At of 31 December we had deposited unused collateral with a collateral value of € 4.85 billion at the Bundesbank giving us potential access to central bank loans to this extent. However, we participated in main refinancing operations only once in 2009 in order to demonstrate the access to this source of refinancing, which we did not use otherwise.

In addition to the scenario relevant for calculating the liquidity cushion, we evaluate further scenarios within the scope of our monthly stress tests which differ in terms of the varying assumptions with respect to institution-specific or market-wide results. In each scenario we forecast the cumulative change in the accumulatated liquid funds per maturity band. Alongside the maturity bands of one to seven days and seven days to one month, four further maturity bands up to one year are exmained in which the balance of the cumulative inflows and outflows must remain positive in each case. Parallel to these stress tests, we draw up quarterly liquidity commitment reports and liquidity outflow analysis.

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

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committeee (ALCO) is responsible for the Bank's structural liquidity risk position. ALCO's duties include monitoring liquidity ratios, the liquidity cushion and liquidity stress tests as well as the regular adjustment of the emergengy liquidity plan. ALCO is also responsible for transfer pricing for liquidity allocation within the Bank. In order to detect liquidity risk early one, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. Our three-stage emergency liquidity plan can be activated at short notice and ensures that the Bank can fulfil its payment obligations at any time, even without HSBC's support. At the same time it is provided for that we are not permanently reliant on central bank liquidity to finance our business model. We want to fund our lending business entirely out of customer deposits or funds raised via bonds, certificates or promissory note loans, which is expressed not least in the parameters given above. Moreover, the constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium term note or commercial paper programme and do not issue certificates of deposit either.

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

We see liquidity risk as a consequential risk of a lack of confidence in providers of outside capital which is frequently prompted by expected losses in connection with credit, market or operational risks. As the latter risks are already to be backed with capital, we believe providing liquidity risk with its own capital backing makes no sense if the capital cushion is adequately endowed for other risks.

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

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

in €m	31.12.2008						
			Gross outflow (not discounted)				
	Book value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 yrs.	> 4 yrs.
Financial liabilities within the balance sheet:							
Liabilities to 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
Subtotal	21,149.1	22,420.1	14,694.0	1,128.1	1,951.0	1,275.0	3,372.0
Financial liabilities outside the balance sheet:							
Loan commitments	3,489.2	3,489.2	3,489.2	0.0	0.0	0.0	0.0
Total	**24,638.3**	**25,909.3**	**18,183.2**	**1,128.1**	**1,951.0**	**1,275.0**	**3,372.0**

* In accordance with the changes to IFRS 7 in March 2009, no derivatives in trading liabilities are included in the liquidity analysis by contractual residual term which do not serve to hedge the Bank's long-term positions.
** Net obligations pursuant to IAS 19 are recognised with their average term

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

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

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

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.– 4 yrs.	> 4 yrs.	No fixed term	Total
Loans and advances to banks	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
	31.12.2008	2,190.7	561.6	227.4	0.0	0.0	0.0	2,979.7
Loans and advances to customers	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
	31.12.2008	2,688.0	558.9	453.9	149.3	232.5	0.0	4,082.6
Trading ssets*/**	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
	31.12.2008	12,482.6	0.0	0.0	0.0	0.0	0.0	12,482.6
Financial Assets	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
	31.12.2008	56.4	6.1	23.1	949.6	812.5	271.1	2,118.8
Other assets	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
	31.12.2008	16.3	0.0	40.6	0.0	0.0	202.3	259.2
Total	31.12.2009	**13,763.9**	**786.1**	**634.6**	**1,948.6**	**834.0**	**471.7**	**18,438.9**
	31.12.2008	**17,434.0**	**1,126.6**	**745.0**	**1,098.9**	**1,045.0**	**473.4**	**21,922.9**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.– 4 yrs.	> 4 yrs.	No fixed term	Total
Liabilities to banks	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
	31.12.2008	2,468.9	15.9	62.0	158.2	4.1	0.0	2,709.1
Customer accounts	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
	31.12.2008	9,833.5	778.0	565.7	192.5	223.1	0.0	11,592.8
Certificated liabilities	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2008	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*/**	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
	31.12.2008	6,152.9	0.0	0.0	0.0	0.0	0.0	6,152.9
Provisions***	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
	31.12.2008	106.3	0.0	0.0	0.0	11.1	0.0	117.4
Other liabilities	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
	31.12.2008	26.1	49.9	11.7	12.2	8.3	0.0	108.2
Subordinated capital	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
	31.12.2008	5.0	3.0	66.3	31.0	353.4	0.0	458.7
Total	**31.12.2009**	**15,895.0**	**639.6**	**370.2**	**151.4**	**538.9**	**0.0**	**17,595.1**
	31.12.2008	**18,592.7**	**846.8**	**705.7**	**393.9**	**610.0**	**0.0**	**21,149.1**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in the Appendix.
** excluding derivatives which are part of a hedging relationship
*** Net obligations pursuant to IAS 19 are recognised with their average term

The ICS in the accounting process

General

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

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

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

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

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

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

Organisational structure

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

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

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

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

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

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

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt was Chairman of the Audit Committee until 31 December 2009. Further members at this point in time were Harald Hörauf, Eggstätt, and Mark McCombe, Hong Kong.

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

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

IT systems

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

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

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

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

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

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

General structure of the ICS

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

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

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

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

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

Specific components of the ICS

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

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

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

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

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

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

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

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

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

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

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

(i) Reconciliation between Market Risk Control und Accounting
Market Risk Control determines the trading result per trading desk on a daily basis. The results are reconciled in Accounting each month with the revenues of the trad-

ing departments in accordance with profit contribution accounting. All differences are analysed down to instrument level, the main differences being promptly discovered and corrected.

(j) Analysis of special business transactions

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

(k) Plausibility checks

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

(l) Overall reconciliation of the income statement

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

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

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

Staff

Number of Employees and Persons Receiving Pensions

The number of employees decreased during 2009 compared to the previous year from 1,481 to a total of 1,438 employees at the end of the year. This represents a drop of 2.9 %. At the end of 2009 we were paying retirement, widow's and orphan's pensions to 556 recipients, compared to 544 at the end of the previous year.

Training Activities

A total of 35 highly-motivated apprentices are currently working at the Bank towards professional qualification in banking, office communication and IT. In addition, six are working towards qualification as investment fund specialist at our HSBC INKA subsidiary and a further six towards professional office communications qualification at HSBC Transaction Services GmbH (formerly ITS). We are proud to report this year as well that a total of 20 apprentices at the HSBC Trinkaus Group successfully completed their training in 2009. One apprentice passed his final exams with the grade of "very good". We remain strongly committed to the qualified training of our employees.

Advanced Training

We strive to constantly offer our clients major expertise and high quality with respect to our advisory service. The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore continue to make extremely high demands of our job applicants, also in view of 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, which is developed on a needs-oriented and targeted basis. For example, we help them to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank, leadership and acquisition seminars, coaching as well as communication and presentation training. Our various advanced training activities are rounded off by specialised Bachelor and Master occupational study and training courses, such as Chartered Financial Analyst (CFA) or Certified Financial Planner (CFP), as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). The selection of vocational training measures is subject to regular quality control and the recruitment of suitable trainers is geared towards the special requirements made of our employees in the various areas of our business.

Performance-Related Remuneration

Performance-related remuneration remains of major importance for motivating our staff, regardless of whether they are included in the collective pay-scale or not. In this context, incentives in the form of variable remuneration components which are in keeping with the Bank's long-term goals and strategies play an important role for our managerial staff.

Thanks

The Bank continues to owe its success to the special commitment and outstanding performance of 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 2009 the Bank's issued share capital was unchanged at € 70.0 million divided into 26.1 million no-par value shares. 52 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

As of the balance sheet date, HSBC Holdings plc, London, indirectly held an unchanged share of 78.6 % of this share capital and Landesbank Baden-Württemberg in Stuttgart directly held an unchanged share of 20.3 %.

Share price and market value

During 2009 our share price rose 10.1 % to € 98.00. The lowest fixing price of the year was € 77.00 and the highest € 100.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares *	Share price * in €	Market capitalisation in €m
31.12.1985	18,000,000	17.60	317.50
31.12.1990	22,000,000	19.80	435.30
31.12.1995	23,500,000	30.60	718.50
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.80
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80

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

Dividends

For the 2009 financial year we propose paying a dividend of € 2.50 per share (2008: € 2.50 per share). With a dividend total of € 65.3 million we wish to ensure that our shareholders participate suitably in the profits we generated in 2009.

German GAAP Consolidated Accounts

Annual Balance Sheet of HSBC Trinkaus & Burkhardt AG
as at 31 December 2009

Assets				31.12.2009	31.12.2008
	in €	in €	in €	in €	in €000
1. Cash reserve					
a) Cash on hand			2,706,867.68		1,723
b) Balances with central banks			173,432,327.38		136,705
of which with Deutsche Bundesbank	173,432,327.38				(136,705)
c) Balances with postal giro accounts			0.00		
				176,139,195.06	**138,428**
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks					
a) Treasury bills and non-interest-bearing treasury notes as well as similar debt instruments issued by public institutions			0.00		0
of which eligible for refinancing with Deutsche Bundesbank	0.00				(0)
b) Bills of exchange			0.00		0
of which eligible for refinancing with Deutsche Bundesbank	0.00			0.00	(0)
3. Loans and advances to banks					
a) Payable on demand			708,268,165.32		930,509
b) Other loans and advances			1,147,254,621.80		1,037,307
				1,855,522,787.12	**1,967,816**
4. Loans and advances to customers				4,517,781,422.55	5,651,660
of which secured by mortgages	0.00				0
Public-sector loans	1,756,869,403.78				(1,670,242)
5. Debt instruments and other fixed-income securities					
a) Money-market instruments					
aa) from public-sector issuers		0.00			0
ab) from other issuers		201,647,627.83			2,172,353
			201,647,627.83		**2,172,353**
b) Bonds and other debt instruments					
aa) from public-sector issuers		2,553,328,409.22			2,478,350
of which eligible as collateral with Deutsche Bundesbank	2,527,327,531.04				(2,469,635)

Assets				31.12.2009	31.12.2008
	in €	in €	in €	in €	in € 000
ab) from other issuers		3,998,111,895.89			3,695,315
			6,551,440,305.11		6,173,665
of which eligible as collateral with Deutsche Bundesbank	3,556,325,472.64				(3,222,633)
c) Own debt instruments			0.00		0
Nominal amount	0.00				0
				6,753,087,932.94	8,346,018
6. Shares and other non-fixed-income securities				1,344,209,533.36	901,793
7. Interests in subsidiaries				51,299,526.13	49,741
of which in banks	474,411.12				(474)
in financial services institutions	37,352,792.84				(35,873)
8. Shares in affiliated companies				181,272,070.68	181,322
of which in banks	0.00				0
in financial services institutions	5,002,428.63				(5,002)
9. Trust assets				150,368,913.09	117,489
of which trust loans	3,241,599.48				(1,215)
10. Recovery claims against public institutions including exchange of debt instruments				0.00	0
11. Intangible assets				4,460,270.24	5,162
12. Property, plant and equipment				17,849,928.91	18,943
13. Unpaid capital				0.00	0
of which called in	0.00				(0)
14. Treasury shares				0.00	0
Nominal amount	0.00				(0)
15. Other assets				93,457,667.85	122,788
16. Deferred income tax assets				34,941,430.46	30,344
17. Prepaid expenses				50,711,671.45	35,086
18. Deficit not covered by equity				0.00	0
Total assets				15,231,102,349.84	17,566,590

Shareholders' equity and liabilities				31.12.2009	31.12.2008
	in €	in €	in €	in €	in € 000
1. Deposits by banks					
a) payable on demand			630,122,768.28		643,869
b) with agreed maturities or notice periods			2,305,551,783.10		2,067,746
				2,935,674,551.38	**2,711,615**
2. Customer accounts					
a) Savings deposits					
aa) with agreed notice periods of three months		32,350,494.18			11,646
ab) with agreed notice periods of more than three months		1,255,527.46			1,247
			33,606,021.64		**12,893**
b) Other liabilities					
ba) payable on demand		4,659,507,967.35			5,765,637
bb) with agreed maturities or notice periods		3,253,200,495.91			4,913,516
			7,912,708,463.26		**10,679,153**
				7,946,314,484.90	**10,692,046**
3. Securitised liabilities					
a) Debt instruments issued			1,849,275,210.71		1,785,901
b) Other securitised liabilities			0.00		0
of which own acceptances and promissory notes outstanding	0.00				0
				1,849,275,210.71	**1,785,901**
4. Trust liabilities				150,368,913.09	117,489
of which trust loans	3,241,599.48				(1,215)
5. Other liabilities				734,255,187.96	629,964
6. Deferred income				19,110,393.46	23,193
7. Provisions					
a) Provisions for pensions and similar obligations			137,249,890.88		134,986
b) Tax provisions			51,440,248.31		74,873
c) Other provisions			143,373,800.30		118,737
				332,063,939.49	**328,596**
8. Special tax-deductible reserve pursuant to Section 52 EStG in conjunction with. Section 5 (1) EStG				0.00	0
9. Subordinated debt				284,369,378.22	322,926

Liabilities				31.12.2009	31.12.2008
	in €	in €	in €	in €	in € 000
10. Profit participation capital				100,000,000.00	135,790
of which maturing in less than two years	0.00				(35,790)
11. Fund for general banking risks				0.00	0
12. Shareholders' equity					
a) Subscribed capital	70,000,000.00		70,000,000.00		70,000
– Contingent capital –	35,000,000.00				(35,000)
b) Reserve premium			210,520,290.63		210,520
c) Retained earnings					
Other retained earnings		463,000,000.00			333,000
			463,000,000.00		333,000
d) Unappropriated profit			136,150,000.00		205,550
				879,670,290.63	**819,070**
Total shareholders' equity and liabilities				**15,231,102,349.84**	**17,566,590**

1. Contingent liabilities			
a) From the endorsement of rediscounted bills	0.00		0
b) Liabilities from guarantees and indemnity agreements	1,268,172,474.63		1,431,965
c) Liability from sureties pledged as collateral security on behalf of third parties	0.00		0
		1,268,172,474.63	**1,431,965**
2. Other liabilities			
a) Liabilities from non-genuine sale and repurchase agreements	0.00		0
b) Placement and underwriting obligations	0.00		0
c) Irrevocable loan commitments	3,290,660,403.73		3,489,208
		3,290,660,403.73	3,489,208

Income Statement of HSBC Trinkaus & Burkhardt AG

for the period from 1 January to 31 December 2009

				2009	2008
	in €	in €	in €	in €	in € 000
1. Interest income from					
a) lending and money-market transactions		203,855,481.96			338,172
b) fixed-income securities and book-entry debt		259,577,437.25			379,659
			463,432,919.21		**717,831**
2. Interest expenses			174,081,750.01		487,306
				289,351,169.20	**230,525**
3. Current income from					
a) shares and other non-fixed-income securities			45,227,112.41		33,422
b) interests in subsidiaries			234,014.86		341
c) shares in affiliated companies			3,850,140.96		1,370
				49,311,268.23	**35,133**
4. Income from profit-pooling, profit transfer and partial profit transfer agreements				26,621,717.73	56,042
5. Commission income			346,418,570.38		369,443
6. Commission expenses			144,304,393.18		161,556
				202,114,177.20	**207,887**
7. Net expenditure from financial transactions (previous year: net income)				91,562,237.18	115,459
8. Other operating income				32,279,556.07	28,201
9. Income from reversal of the special tax-deductible reserve				0.00	0
10. General administrative expenses					
a) Personnel expenditure					
aa) Wages and salaries		158,254,684.36			160,388
ab) Social security contributions as well as expenses for post-employment benefits		30,912,206.91			30,560
of which:			**189,166,891.27**		**190,948**
for retirement pensions	15,555,374.92				(15,306)
b) Other operating expenses			104,337,441.13		103,203
				293,504,332.40	**294,151**
11. Depreciation, adjustments and amortisation				9,059,271.51	8,853
12. Other operating expenses				18,947,598.50	6,022

				2009	2008
	in €	in €	in €	in €	in € 000
13. Depreciation and adjustments for receivables and certain securities as well as allocations to provisions for credit risks			1,273,988.37		71,541
14. Income from write-ups on loans and certain securities as well as from the release of provisions for credit risks			0.00		0
				1,273,988.37	71,541
15. Depreciation and adjustments for interests in subsidiaries, shares in affiliated companies and assets treated as securities			0.00		5,531
16. Income from write-ups of interests in subsidiaries, shares in affiliated companies and securities treated as fixed assets			956,857.14		0
				956,857.14	5,531
17. Expenses from the assumption of losses				5,607,035.90	956
18. Allocations to the special tax-deductible reserve				0.00	0
19. Profit from ordinary business activity				180,680,281.71	286,193
20. Extraordinary income			0.00		0
21. Extraordinary expenses			0.00		0
22. Extraordinary result				0.00	0
23. Income taxes			54,730,563.85		81,141
24. Other taxes not included in item 12			99,717.86		52
				54,830,281.71	81,193
25. Income from assumption of losses				0.00	0
26. Profits transferred under profit pooling, profit transfer or partial profit transfer agreements				0.00	0
27. Net profit for the year				125,850,000.00	205,000
28. Profit brought forward from the previous year				10,300,000.00	550
				136,150,000.00	205,550
29. Withdrawals from share premium				0.00	0
30. Withdrawals from retained earnings				0.00	0
31. Withdrawals from profit participation capital				0.00	0
32. Allocations to revenue reserves				0.00	0
33. Replenishment of profit participation capital				0.00	0
34. Unappropriated profit				136,150,000.00	205,550

Notes to the Annual Financial Statements for 2009 of HSBC Trinkaus & Burkhardt AG

Basis of Preparation

General Information

The annual financial statements of HSBC Trinkaus & Burkhardt AG as at 31 December 2009 were prepared in accordance with the provisions of the German Commercial Code (HGB) in light of the requirements in the German Stock Corporations Act relating to the Bank's legal form in connection with the accounting rules for banks.

The figures in brackets refer to 2008.

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London, E14 5HQ, Great Britain, registration number 617987. As at the end of 2009, 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. 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. In the year under report the calculation of global value adjustments was adjusted to the method used in accordance with IAS 39.

The effect of this conversion on earnings came to € 14.4 million in the year under report. The adjustments thus calculated are deducted from the carrying amount of the loans and advances.

Borrowers' notes and registered debt instruments included in the trading book are 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 commitment).

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.

In the year under report four bonds held for liquidity provisioning were hedged by means of interest-rate swaps within a valuation unit. The fluctuations in value that are induced by the market price are largely offset by the swaps. Fluctuations in market value due to risk or liquidity spreads are not hedged. In the case of losses, the ineffective portion of the valuation unit is recorded in the income statement. Profits are not recognised.

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
The warrants and certificates which are debt instruments within the meaning of Section 793 of the German Civil Code (BGB) are reported under "debt instruments and other fixed-income securities" and "securitised liabilities".

Trading Activities
All holdings in the trading book are 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 borrowers' note loans as well as forward transactions and derivatives.

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 on 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 stock or index-related transactions traded on 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 € 150.01 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 2009.

The value of permanently impaired assets is written down accordingly.

Buildings are subject to straight-line deprecation 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.

Deprecation 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 borrowers' 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 6.0 %; pensions 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 5.5 %, 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	31.12.2009	31.12.2008
a) Payable on demand	708.3	930.5
b) Other loans and advances	1,147.2	1,037.3
Payable in		
up to three months	971.7	653.4
more than three months up to one year	13.0	98.1
more than one year up to five years	61.6	59.0
more than five years	100.9	226.8
Total	**1,855.5**	**1,967.8**

Loans and Advances to Customers

in €m	31.12.2009	31.12.2008
Payable in		
up to three months	1,661.1	2,632.0
more than three months up to one year	209.3	184.4
more than one year up to five years	1,234.8	1,178.0
more than five years	1,412.6	1,657.3
Total	**4,517.8**	**5,651.7**

Deposits by Banks

in €m	31.12.2009	31.12.2008
a) Payable on demand	630.1	643.9
b) With agreed maturities or notice periods	2,305.6	2,067.7
Payable in		
up to three months	2,235.6	1,913.7
more than three months up to one year	52.0	128.3
more than one year up to five years	13.9	21.6
more than five years	4.1	4.1
Total	**2,935.7**	**2,711.6**

Customer Accounts

in €m			31.12.2009	31.12.2008
a)	Savings deposits		33.6	12.9
	Payable in			
		up to three months	32.4	11.7
		more than three months up to one year	0.1	0.1
		more than one year up to five years	1.1	1.1
		more than five years	0.0	0.0
b)	Other liabilities		7,912.7	10,679.1
	ba)	Payable on demand	4,659.5	5,765.6
	bb)	With agreed maturities or notice periods	3,253.2	4,913.5
		Payable in		
		up to three months	2,123.0	3,089.1
		more than three months up to one year	175.2	424.4
		more than one year up to five years	202.9	359.4
		more than five years	752.1	1,040.6
Total			**7,946.3**	**10,692.0**

Securitised Liabilities

in €m			31.12.2009	31.12.2008
a)	Debt instruments issued payable in		1,849.3	1,785.9
		up to three months	320.1	249.9
		more than three months up to one year	524.4	594.3
		more than one year up to five years	792.9	659.9
		more than five years	211.9	281.8
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			**1,849.3**	**1,785.9**

Affiliated Companies - Receivables and Liabilities

in €m	31.12.2009	31.12.2008
Loans and advances to banks	588.1	695.9
Loans and advances to customers	83.6	146.9
Shares	14.0	21.0
Debt instruments	635.6	2,699.9
Deposits by banks	2,148.6	1,813.0
Customer accounts	32.9	178.2
Securitised liabilities	0.0	0.0
Subordinated debt	0.0	0.0

Subsidiaries - Receivables and Liabilities

in €m	31.12.2009	31.12.2008
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.7	1.3
Debt instruments	0.0	0.0
Deposits by banks	0.0	0.0
Customer accounts	0.0	0.0
Securitised liabilities	0.0	0.0
Subordinated debt	0.0	0.0

Trust Activities

Trust assets and liabilities break down as follows:

Trust Assets

in €m	31.12.2009	31.12.2008
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.9	1.2
Equity interests held in trust	149.5	116.3
Total	150.4	117.5

Trust Liabilities

in €m	31.12.2009	31.12.2008
Deposits by banks	0.0	0.0
Customer accounts	150.4	117.5
Total	150.4	117.5

Foreign Currency

As of 31 December 2009, assets denominated in a foreign currency were valued at € 1,073.5 million (€ 1,057.6 million). Total liabilities denominated in a foreign currency came to € 1,733.6 million (€ 1,509.1 million).

Loans and Advances to Banks

Credit balances with a nominal amount of € 11.4 million (€ 21.4 million) were pledged as collateral for securities loan transactions as at the balance sheet date.

The liabilities include borrowers' note loans and registered debt instruments of the trading book. They were valued on the basis of the risk-adjusted market 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 € 157.8 million (€ 129.1 million).

The liabilities include borrowers' 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	31.12.2009	31.12.2008
Liquidity reserve	2,169.4	1,366.5
Trading book	4,583.7	6,979.5
Total	6,753.1	8,346.0

Securities with a carrying amount of € 495.9 million (€ 2,576.1 million) are eligible for listing on an exchange but are not listed.

Debt instruments with a nominal value of € 4,879.1 million (€ 4,145.5 million) were available for use as collateral for peak funding facilities as at the balance sheet date. No open market transaction with Deutsche Bundesbank was outstanding (€ 0.0 million) as at the balance sheet date.

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

Fixed-rate securities with a nominal value of € 996.4 million (€ 1,043.8 million) had been pledged as security for transactions on the Eurex and for securities lending operations.

Bonds and other debt instruments with a carrying amount of € 1,204.7 million (€ 2,499.1 million) will be due for settlement in 2010.

The trading book was valued on the basis of the risk-adjusted market value approach.

Shares and Other Non-Fixed-Income Securities

in €m	31.12.2009	31.12.2008
Liquidity reserve	512.1	518.1
Trading book	832.1	383.7
Total	1,344.2	901.8

This item includes securities eligible for listing on an exchange of € 871.5 million (€ 428.3 million). Securities with a carrying amount of € 45.9 million (€ 3.4 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 € 472.7 million (€ 473.5 million).

Equities with a carrying amount of € 3.4 million (€ 22.5 million) have been pledged as collateral for securities lending operations. As at the balance sheet date, equities with a carrying amount of € 185.9 million (€ 311.9 million) had been lent. As in the previous year, there were no transactions with shares and other non-fixed-income securities sold under agreements to repurchase.

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.

The trading book was valued on the basis of the risk-adjusted market value approach.

Subordinated Assets

in €m	31.12.2009	31.12.2008
Loans and advances to banks	0.2	0.0
Loans and advances to customers	7.6	0.0
Debt instruments		
Other issuers	67.6	69.5
Own debt instruments	0.0	0.0
Shares and other non-fixed-income securities	0.1	0.0

Interests in Subsidiaries and Shares in Affiliated Companies

The interests in subsidiaries include listed securities with a carrying amount of € 11.6 million (€ 10.2 million). As in the previous year, shares in affiliated companies do not include any shares eligible for listing on an exchange.

A list of the investments can be found on pages 88 to 89.

Fixed Assets

Property, plant and equipment comprise business and operating equipment with a carrying amount of € 17.6 million (€ 18.7 million). The Bank owns 20 parking places in a garage complex at Kö-Center, Düsseldorf, which it uses in its own business activities. In 2009, minor-value assets of € 0.6 million (€ 0.8 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 90 to 91.

Treasury Shares

As in the previous year, HSBC Trinkaus & Burkhardt AG did not hold any treasury shares at the end of 2009. As of the balance sheet date, 370 (540) shares in HSBC Trinkaus & Burkhardt AG, equivalent to 0.001 % (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 78,458 (6,886) treasury shares in the course of 2009, equivalent to 0.30 % (0.03 %) of its share capital, which it then resold. The average purchase price per share came to € 87.37 (€ 100.97). The average selling price stood at € 87.47 (€ 100.81). Income from these transactions is included in net income from financial transactions. The largest holding on any day was 72,421 shares (3,284 shares) or 0.28 % (0.01 %) of the share capital.

Other Assets

Other assets primarily comprise tax reimbursement claims of € 22.4 million (€ 28.0 million) and receivables from affiliated companies of € 39.6 million (€ 66.6 million) as well as collateral provided for futures contracts of € 11.6 million (€ 11.9 million).

Deferred Income Tax Assets

This item includes deferred income tax assets of € 34.9 million (€ 30.3 million) arising from differences between commercial and tax law in the timing of the recognition of expenses.

Prepaid Expenses

Prepaid expenses comprise:

in €m	31.12.2009	31.12.2008
Discounts from liabilities	2.5	2.7
Premiums from receivables	43.6	27.6

Deferred income comprises:

in €m	31.12.2009	31.12.2008
Discounts from receivables	16.0	20.1
Premiums from liabilities	2.4	3.0

Other Liabilities

Other liabilities primarily comprise the fair values from the derivative financial instruments which are held for trading, totalling € 669.7 million (€ 530.9 million) (see also section "Trading Activities"). They also include replacement obligations under short sales of € 17.4 million (€ 37.4 million), tax liabilities of € 9.1 million (€ 14.2 million) and deferred interest on profit participation capital and subordinated liabilities of € 12.0 million (€ 15.7 million).

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	31.12.2009	31.12.2008
Provisions for credit risks	3.1	5.1
Personnel provisions	93.1	88.0
Other provisions	47.2	25.6
Total	143.4	118.7

Subordinated Debt

Liabilities include subordinated debt instruments and borrower's note loans with a total value of € 284.4 million (€ 322.9 million). In 2009, interest expenditure on all subordinated debt came to € 14.1 million (€ 16.2 million).

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

Interest Rates on Subordinated Debt

Interest rates	Nominal amount (in €m)
4% to less than 5%	100.2
5% to less than 6%	159.2
Fixed rates	259.4
Variable rates	25.0
Total	284.4

Repayment of Subordinated Debt

Term	Nominal amount (in €m)
Up to one year	6.0
One year up to five years	80.2
More than five years	198.2
Total	284.4

Ranking Arrangements

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

Subordinated debt of € 265.8 million (€ 296.1 million) is included in the calculations of liable equity in accordance with Section 10 (5 a) of the German Banking Act.

Profit Participation Capital

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

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

The terms and conditions applicable to all issues stipulate that the claims under the securities have a lower ranking than the non-subordinated claims held by all of HSBC Trinkaus & Burkhardt AG's other creditors. They have the same ranking as all other subordinated debt held by HSBC Trinkaus & Burkhardt AG. In accordance with the terms and conditions of issue, the 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 / or 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 9 June 2009, an amount of € 65.3 million was distributed from the unappropriated profit for 2008 (€ 205.6 million). A sum of € 130.0 million was retained and profit of € 10.3 million carried forward. Retained earnings stand at € 463.0 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 subject to disclosure in accordance with Section 340c (3) of the German Commercial Code and subject to allocation to the Bank's liable equity in accordance with Section 10 of the German Banking Act stood at € 33.8 million (€ 24.3 million) in fixed-income securities held in the investment book and € 13.2 million (€ 7.1 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 at 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.

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

Obligations from Rental, Lease and Leasing agreements

in €m	31.12.2009	31.12.2008
Up to 1 year	23.9	22.6
Over one year up to five years	29.5	31.1
Over five years	9.5	3.4
Total	62.9	57.1
of which towards affiliated companies	8.1	6.6

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of € 3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of € 1.0 million is still outstanding.

The Bank has outsourced the operation of two backup data centres, of the credit register for card payments and the establishment and operation of an account documentation office to external third parties, pursuant to Section 24 c of the German Banking Act. Furthermore, services in the area of securities settlement and administration have been outsourced to the subsidiary HSBC Transaction Services GmbH (formerly ITS).

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

Transactions Exposed to Market Risk

Transactions with Financial Derivatives

		Nominal amounts due for settlement in		
in €m		Up to 1 year	Over one year up to five years	More than 5 years
Interest-rate-related transactions				
OTC products	FRAs	1,300	0	0
	Interest-rate swaps	5,951	12,809	8,773
	Interest-rate options	1,568	2,834	2,851
	Forward transactions	1,191	0	0
Exchange-traded products	Interest-rate futures	366	220	0
	Interest-rate options	0	0	0
	Total	**10,376**	**15,863**	**11,624**
Foreign-currency-related transactions				
OTC products	Forex forward transactions *	22,805	1,044	2
	Cross-currency swaps	52	111	12
	Forex options *	2,132	244	0
Exchange-traded products	Currency futures	0	0	0
	Total	**24,989**	**1,399**	**14**
Stock/index-related transactions				
OTC products	Stock/index options	51	184	43
	Forward transactions	281	2	0
	Equity swaps	10	53	53
Exchange-traded products	Stock/index futures	502	0	0
	Stock/index options	3,486	1,355	0
	Total	**4,330**	**1,594**	**96**
Total financial derivatives		**39,695**	**18,856**	**11,734**

* Including precious metals options and forward transactions

Nominal amounts		Market value			
		Positive		Negative	
2009	2008	2009	2008	2009	2008
1,300	790	0	2	0	2
27,533	31,234	847	753	1,110	933
7,253	11,207	74	120	103	152
1,191	0	7	0	8	0
586	2,392	3	5	1	6
0	382	0	0	0	4
37,863	**46,005**	**931**	**880**	**1,222**	**1,097**
23,851	27,391	339	1,063	324	1,071
175	200	7	17	7	17
2,376	5,296	40	141	42	142
0	0	0	0	0	0
26,402	**32,887**	**386**	**1,221**	**373**	**1,230**
278	752	61	105	47	205
283	0	139	0	204	0
116	0	0	0	15	0
502	653	4	20	0	7
4,841	7,109	390	432	574	618
6,020	**8,514**	**594**	**558**	**840**	**831**
70,285	**87,406**	**1,911**	**2,659**	**2,435**	**3,158**

Breakdown of Market Values by Counterparty

		31.12.2009	
in €m		Positive	Negative
OECD	Banks	1,123	1,457
	Financial institutions	227	74
	Miscellaneous	560	900
Non-OECD	Banks	1	0
	Miscellaneous	0	4
Total		1,911	2,435

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 at the balance sheet date in the event of counterparty default regardless of their credit rating and any netting arrangements.

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

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 risks is as follows:

in €m	31.12.2009	31.12.2008
Interest-rate-related transactions	2.9	2.9
Foreign-currency-related transactions	0.2	0.0
Stock/index-related transactions	4.6	3.8
Total market risk potential	4.7	4.4

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 € 981.1 million (€ 1,206.7 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 € 7.4 million (€ 7.8 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

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

Other Operating Income

Other operating income of € 32.3 million (€ 28.2 million) primarily comprises the proceeds of € 23.9 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 € 4.0 million from the reversal of provisions no longer required.

Other Operating Expenses

Other operating expenses of € 18.9 million (€ 6.0 million) comprise € 15.6 million for a placement guarantee for a real estate fund, € 1.7 million for payments made in settlement of claims in connection with the Bank's securities business and € 1.5 million for provisions for ex gratia services.

Other Disclosures

Staff

Annual average	31.12.2009	31.12.2008
Employees subject to pay-scale agreements	626	668
Employees not subject to pay-scale agreements	772	751
Trainees	34	35
Total	**1,432**	**1,454**
of which:		
female	593	611
male	839	843

Liability under Letters 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.

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 partners in the partnership in question provided that such general and Managing Partners are natural persons.

Related Party Disclosures

In the year under report no transactions not in line with market standards were carried out with related parties.

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 83. The offices held by these persons in other supervisory boards are listed on pages 84 to 87.

Advances and Loans to Members of the Executive Bodies

As at the balance sheet date, no advances or loans had been granted to any members of the Management Board (€ 44 thousand) or 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 to 9 of the German Commercial Code have been omitted.

The fixed remuneration components of all Management Board members for 2009 remained unchanged in comparison with 2008 at € 2,157.3 thousand (€ 2,157.3 thousand). The variable portion of the remuneration rose slightly to € 5,715.0 thousand (€ 5,572.0 thousand). Moreover, the Management Board also receives a remuneration in shares as long-term incentive, in accordance with a payout structure that is specified below. This remuneration element corresponds to a fair value of € 4,485 thousand for 2009 (€ 4,228.0 thousand).

Other compensation amounting to € 85.6 thousand (€ 85.7 thousand) essentially comprises remuneration for holding offices on supervisory boards within the

Group, the use of a company car, insurance contributions and other non-monetary benefits that are taxable individually.

As in previous years, the performance-related component for 2009 was paid partially in cash and partially through an award of shares in HSBC Holdings plc. The transfer of the shares that have been allocated as variable compensation for the year 2007 will take place in three equal instalments over the next three financial years, in each case after the announcement of net income for the year of the HSBC Group, i.e. in the years 2009 to 2011, subject to the condition precedent of continued service 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 shares allocated as variable remuneration for the year 2009 are transferred in the second and third years after the announcement, i.e. 50 % each in the years 2012 and 2013.

In the year under review, payments totalling € 301.8 thousand were made to three 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 8 June 2010, the remuneration payable to the Supervisory Board for 2009 will amount to € 1,122.8 thousand.

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

Pension benefits of € 4,411.2 thousand were paid to retired general partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents. Provisions of € 34,526.2 thousand have been set aside for former partners and their surviving dependents.

The members of the Board of Directors received remuneration totalling € 353.1 thousand.

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 €	2009	2008
The income statement closes with distributable profit of	136,150,000.00	205,550,000.00
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 total dividends of	65,250,000.00	65,250,000.00
Amount to be retained	60,000,000.00	130,000,000.00
Amount to be carried forward	10,900,000.00	10,300,000.00
	136,150,000.00	205,550,000.00

Dusseldorf, 5 February 2010

The Management Board

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Executive Bodies

Management Board

Andreas Schmitz (Chairman of the Management 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

Professor Dr. h.c. Ludwig Georg Braun, Melsungen,
Deputy Chairmann,
Chairman of the Management Board,
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

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

Oliver Honée*, Essen,
Bank employee

Dr. Siegfried Jaschinski, Stuttgart,
Chairman of the Management Board,
Landesbank Baden-Württemberg
(up tp 10 June 2009)

Dr. Otto Graf Lambsdorff, Bonn,
Lawyer
(passed away 5 December 2009)

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

Mark McCombe, Hong Kong, Chief Executive Officer,
The Hongkong and Shanghai Banking Corporation Ltd,
(from 27 March 2009)

Hans-Jörg Vetter, Stuttgart,
Chairman of the Management Board,
Landesbank Baden-Württemberg, Stuttgart
(from 30 September 2009)

Jörn Wölken*, Lohmar,
Bank employee

* Employees' Representative

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

Members of the Management Board

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

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

Paul Hagen		
	a)	Düsseldorfer Hypothekenbank AG, Düsseldorf
		Falke Bank AG i.L., Düsseldorf
	b)	HSBC Trinkaus Investment Managers SA, Luxembourg [1]
		HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg (Deputy Chairman) [1]
		Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
		HSBC Transaction Services GmbH, Düsseldorf (Vorsitzender) [1]
		SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
		RWE Supply & Trading GmbH, Essen

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

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

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

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

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

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

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

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

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

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

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

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 (Chairman)		
	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]

Prof. 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, Franfurt am Main
		Findos Investor Fund I GmbH & Co. KG, Munich
		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]

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

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

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

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

Professor Dr. Ulrich Lehner		
	a)	Deutsche Telekom AG, Bonn (Chairman)
		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

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

[1] HSBC Trinkaus & Burkhardt 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 in %	Shareholders' equity of the company[1] € 000	Net profit 2009 € 000
Banks and companies similar to banks				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	8,180[2]
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	111,902	18,775
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,515[3]	1,066[3]
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	17,500	2,119[2]
HSBC INKA Investment-AG TGV[4]	Düsseldorf	100.0	1,954	– 28
HSBC Transaction Services GmbH[5]	Düsseldorf	100.0	13,427	– 2,164[2]
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	194[2]
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	15,527[2]
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,122	443
HSBC Global Asset Management (Österreich)	Vienna	100.0	290	42
HSBC Global Asset Management (Switzerland) AG[6]	Zurich	50.0	684	10
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	– 4[2]
Specially commissioned companies				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	– 5,494[2]
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	– 316
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	31	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	59	4
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	43	11
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	19	– 59
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Trinkaus Canada 1 GP Ltd.*****	Toronto	100.0	5[7,8]	– 3[7,8]
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,914[2]
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,627	1,588
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	– 113[2]

	Registered office	Percentage of capital held in the company in %	Shareholders' equity of the company[1] € 000	Net profit 2009 € 000
Property companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,288	1,127
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,490	568
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	3,077	2,310
Other companies				
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	5,171[8]	– 841[8]
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	31	1
SINO AG[6]	Düsseldorf	26.6	6,920	2,709

1 Including unappropriated profit/loss after distribution of profit
2 Profit and loss transfer agreement
3 Exchange rate: EUR/USD = 1.4400
4 Shares of the company
5 renamed, formerly International Transaction Services GmbH (ITS)
6 at equitx consolidated
7 Exchange rate: EUR/CAD = 1.5100
8 Figures as at 31 December 2008

Changes in Fixed Assets

Property, Plant and Equipment

€ 000	Historical cost 01.01.2009	Additions	Disposals	Disposals Reclassifications	Historical cost 31.12.2009
Property-like rights	300.4	0.0	0.0	0.0	300.4
Tangible assets	46,650.7	6,312.2	2,896.1	0.0	50,066.8
Standard software	9,188.4	0.0	0.0	0.0	9,188.4
Intangible assets	11,326.9	1,472.3	0.0	0.0	12,799.2
Total	**67,466.4**	**7,784.5**	**2,896.1**	**0.0**	**72,354.8**

Financial Assets

€ 000	Historical cost 01.01.2009	Additions	Disposals	Reclassifi-cations	Historical cost 31.12.2009
Interests in subsidiaries	57,761.0	624.6	22.9	0.0	58,362.7
Shares in affiliated companies	181,595.6	0.0	50.0	0.0	181,545.6
Total	**239,356.6**	**624.6**	**72.9**	**0.0**	**239,908.3**

Accumulated depreciation	Additions	Disposals	Reclassifi-cations	Accumulated depreciation	Residual book values	Residual book values
01.01.2009				31.12.2009	31.12.2009	31.12.2008
87.7	3.7	0.0	0.0	91.4	209.0	212.7
27,945.8	6,868.0	2,376.4	0.0	32,437.4	17,629.4	18,704.9
9,163.4	13.5	0.0	0.0	9,176.9	11.5	25.0
6,164.8	2,174.1	0.0	0.0	8,338.9	4,460.3	5,162.1
43,361.7	**9,059.3**	**2,376.4**	**0.0**	**50,044.6**	**22,310.2**	**24,104.7**

Accumulated depreciation	Additions	Disposals	Reclassifi-cations	Accumulated depreciation	Residual book values	Residual book values
01.01.2009				31.12.2009	31.12.2009	31.12.2008
8,020.1	483.1	0.0	1,440.0	7,063.2	51,299.5	49,740.9
273.6	0.0	0.0	0.0	273.6	181,272.0	181,322.0
8,293.7	**483.1**	**0.0**	**1,440.0**	**7,336.8**	**232,571.5**	**231,062.9**

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, 2009. The Management Board of the Bank is responsible for compiling the accounts, the financial statements and the management report pursuant to German commercial law. Our task is to provide an assessment, on the basis of the audit we have carried out, of the annual financial statements and the management report.

We conducted our audit in accordance with Section 317 of the German Commercial Code, taking into account the generally accepted auditing principles prevailing in Germany, as laid down by the Institut der Wirtschaftsprüfer in Deutschland e. V. (IDW, auditors' association). 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, 12 February 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Signed by
Dr. Hübner
Auditor

Signed by
Bormann
Auditor

ANNEX B

Annual Report 2009 (consolidated financial statements)

The Annual Report 2009 (consolidated financial statements) are reproduced on the following pages and separately paginated (117 pages, from page B - 2 through page B - 118).

Annual Report 2009

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2009	2008	Change in %
Results in €m			
Operating revenues	619.6	589.3	5.1
Net loan impairment and other credit risk provisions	22.4	4.5	> 100.0
Administrative expenses	400.8	384.2	4.3
Operating profit	196.4	200.6	– 2.1
Profit before taxes	163.7	138.2	18.5
Tax expenses	54.5	48.6	12.1
Net profit for the year	109.2	89.6	21.9
Balance sheet figures in €m			
Total assets	18,728.6	22,205.7	– 15.7
Shareholders' equity	1,062.5	955.0	11.3
Ratios			
Cost:income ratio of usual business activity in %	68.3	72.9	–
Return on equity before tax in %	17.1	15.2	–
Net fee income in % of operating revenues	55.9	59.0	–
Funds under management and administration in €bn	99.1	87.2	13.6
Employees	2,280	2,238	1.9
Share information			
Number of shares issued in million	26.1	26.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	4.12	3.49	18.0
Share price as at 31.12. in €	98.0	89.0	10.1
Market capitalisation in €m	2,557.8	2,323.9	–
Regulatory ratios*			
Tier 1 in €m	817	754	8.4
Regulatory capital in €m	1,160	1,151	0.8
Risk-weighted assets in €m	7,850	8,588	– 8.6
Tier 1 ratio in %	10.4	8.8	–
Regulatory capital ratio in %	14.8	13.4	–

* following confirmation of the balance sheet

Group Management Report

Structure and Management

The Group

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

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

* renamed, formerly International Transaction Services GmbH (ITS)
** joint venture with HSBC Global Asset Management (France), Paris, established in 2009

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

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

Constitution of the Company

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

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

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

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

In accordance with the resolution passed by the Annual General Meeting 9 June 2009, the Management Board has the right to buy and sell its own shares for the purpose of securities trading, but only at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or, if this cannot be determined, on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10 %. The number of shares bought for this purpose may not amount to more than 5 % of the company's share capital at the end of each day. This authorisation is valid until 30 November 2010.

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

Basic Features of the Compensation System for the Executive Bodies

The Supervisory Board has delegated its responsibility for determining the compensation of Management Board members to the Personnel Sub-committee of the Supervisory Board. The members of the Personnel Sub-committee of the Supervisory Board in the 2009 financial year were Dr. Sieghardt Rometsch (Chairman) and Harold Hörauf. The Personnel Sub-committee met four times in the 2009 financial year. With the Act on the Appropriateness of Management Board Compensation (VorstAG) the German Stock Corporation Act (AktG) has been amended to the effect that the entire Supervisory Board must now decide on the compensation of the Management Board. The rules of procedure for the Supervisory Board were adapted to the amended legislation in November 2009. As a result, the Personnel Sub-committee now only has an advisory function with a view to the compensation of the members of the Management Board.

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

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both. The cash component amounts to at least 50 % of the variable compensation. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013.

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

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2009 financial year can be found in Note 68 "Business Relationships with Companies and Persons Defined as Related Parties".

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

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

The compensation of members of the Supervisory Board in the 2009 financial year is reported under Note 68 of our consolidated accounts "Business Relationships with Companies and Persons Defined as Related Parties".

The Business Divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas and central functions. The Management Board members are assisted by Florian Fautz, Trevor Gander and Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also to the operations of its subsidiaries.

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)

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

Central Functions B

Paul Hagen
Management Board

Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Management Board

Private Banking

Division II

Andreas Schmitz
Management Board

Syndicate/Issuing Business

Florian Fautz
Member of the Executive Committee

Investment Banking

Manfred Krause
Member of the Executive Committee

Corporate Banking
Foreign Business

Division III

Carola Gräfin v. Schmettow
Management Board

Institutional Clients
Asset Management
Securities Services

Division IV

Carola Gräfin v. Schmettow
Management Board

Global Markets

Division V

Paul Hagen
Management Board

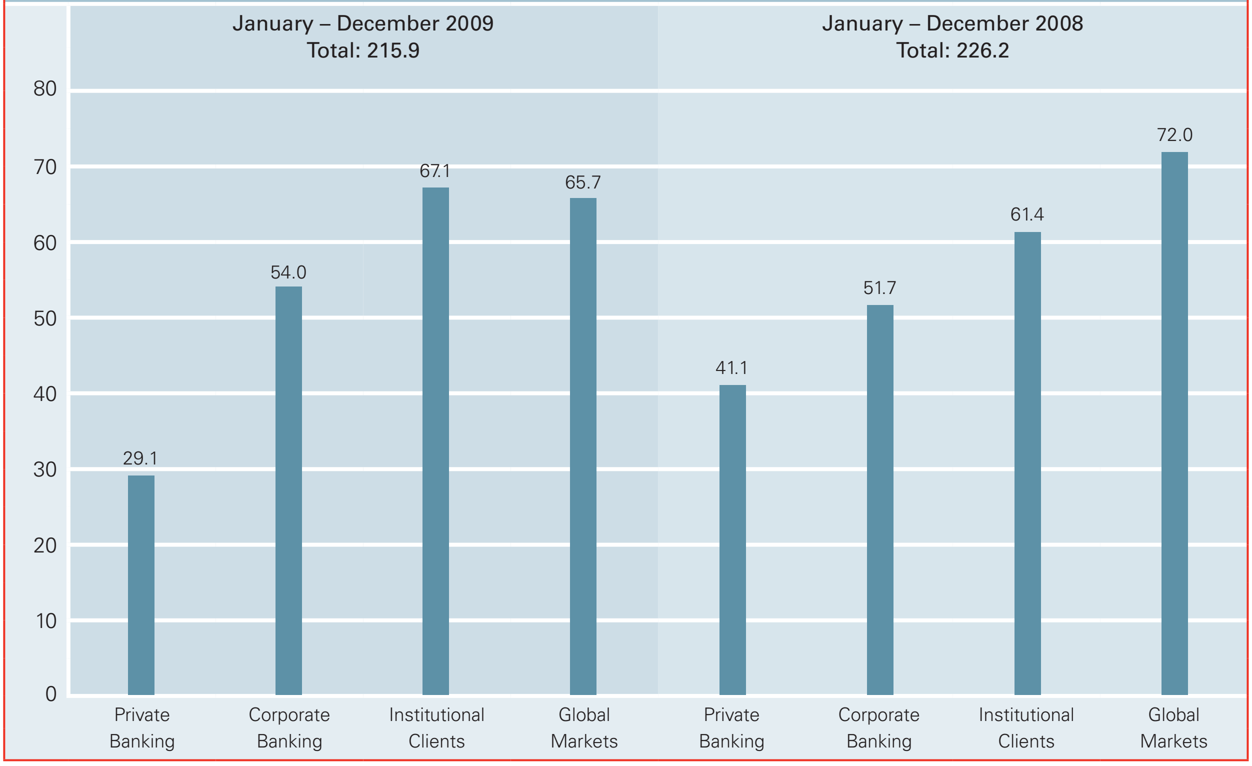
Operations
Business Process Development
Information Technology
Trading Systems
Securities Services

Trevor Gander
Member of the Executive Committee

Credit
Operational Risk

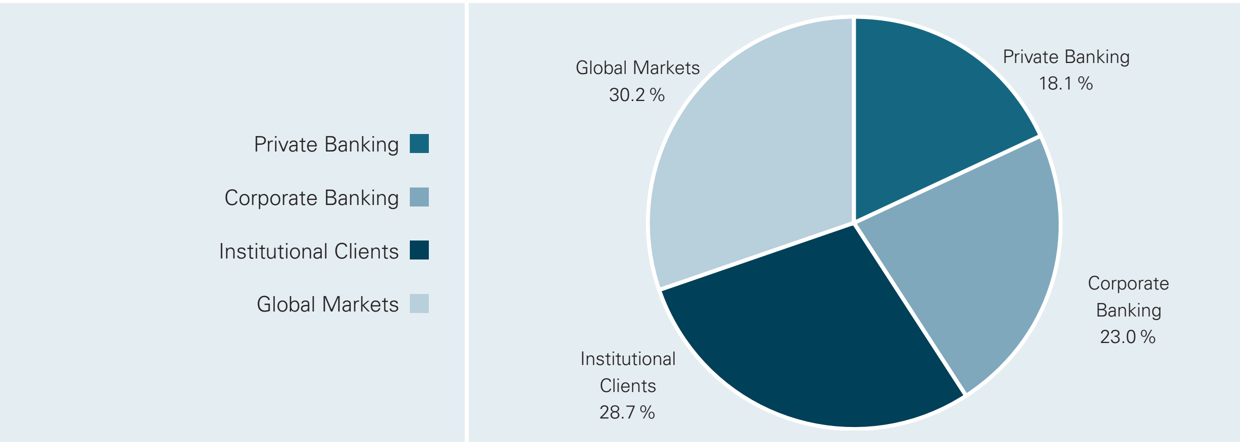
Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial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

Contributions to profit in €m



After deduction of the € 19.5 million net costs incurred by head office functions during 2009, as against € 25.6 million for 2008, the 2009 operating profit was € 196.4 million (2008: € 200.6 million*). Mean contributions to profits over the last five years reveal a balanced picture:

5-year average profit contributions



Strategic Direction

The ongoing crisis continues to put major pressure on the economy and the financial markets in the 225th year of our history. However, the focus of crisis management is now being shifted away from short-term bailout measures towards a long-term reorientation of the financial markets that can even include major shakeups.

Governments and central banks had to act primarily as a rapid deployment force last year and, in order to stabilise the system, save banks irrespective of the quality of their business model. In Germany, this even led to the nationalisation of one individual institution which attracted major media attention. The primary task of governments, regulators and central banks will now be to create an internationally valid framework which allows the banks with a functioning business model to place themselves on a stable foundation again and which forces the banks without a sustainable business model to consolidate or wind up. This framework will have to guarantee at the same time that an incipient crisis of this dimension can be identified and prevented in future. A second major challenge the central banks will have to face is the controlled withdrawal of the large amounts of liquidity which were pumped into the markets last year.

Even though the banks appear to be gradually recovering, economic indicators are already giving off positive signals again and there has been no sharp increase in unemployment so far, we nevertheless do not expect the German economy to declare the crisis over in 2010.

The slump in overall economic output of around 5 % in the year of crisis in 2009 is reflected in the financial statements of many companies now being published. In regional terms, the percentage is far higher in individual cases.

This of course feeds through to the companies' credit standing, which in turn has repercussions for the banks' capital requirements with respect to lending. Consequently, their ability to grant new loans will be limited precisely at the moment when a possible upswing has to be financed. Politicians and bankers will accordingly have to continue to work hand in hand to avoid a credit squeeze and provide the basis for an economic recovery.

HSBC Trinkaus' position proved itself again in 2009. This shows that the business model functions not only in good times, but also – in contrast to many other financial institutions – in the severest financial and economic crisis since the Great Depression of 1929.

Based on a traditionally conservative stance, HSBC Trinkaus has developed and cultivated the ability to adapt to changes in the markets in good time and adjust its business model accordingly.

The overall economic environment will remain a challenge for HSBC Trinkaus and the entire sector in the months ahead and beyond as well. But it is exactly in this market situation that our strengths come into their own more than ever before. Our proven business model with its consistent orientation to clearly defined target groups and risk-aware trading will continue to form the basis for successful business performance. In addition, as a member of the HSBC Group we offer "the best of both worlds", namely the continuity, professionalism and individuality of a private bank together with the international service capacity and capital strength of a global financial services provider.

With this unique combination in the German banking landscape, we have been able to position ourselves especially in the financial market crisis as a trustworthy and solid partner, strengthen the commitment of our existing clients and acquire many new clients.

We want not only to consistently continue on this path, but also to use the opportunities arising for a globally operating bank on account of the distortions on the German banking landscape even more selectively through targeted investments in the market. The focus here lies on growth in the business with the upper and in particular the internationally oriented SME segment as well as the business with wealthy private clients. In addition, we will make targeted efforts to strengthen our product range in the institutional business so that we can do even more justice to our claim of being a core bank in this client segment as well.

Irrespective of this, we will continue to pursue our proven, conservative risk policy during this growth – true to the motto: we grow with our clients, not with our risks.

On the product side, naturally we offer our clients all the services of the traditional banking business, but we also distinguish ourselves in particular by the fact that we stand by them in solving complex problems on the national and international level. We are traditionally strong in the entire product range of the securities business, in interest rate and currency management, in international services and asset management as well as in the individual servicing of wealthy private clients. Our expertise in the capital and credit markets is also appreciated and used by our clients. By continuously updating our information and communication system, we ensure the most advanced banking technology and services of the highest quality in all product segments.

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

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

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

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

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

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

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the powerful product range and the respective regional networks in 88 countries.

The success of this strategy depends on whether we continue to satisfy the following conditions:

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

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

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

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

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

Future needs tradition. In this respect we are very pleased to be able to celebrate the 225th anniversary of the Bank's foundation this year. Our anniversary motto is at the same time an expression of the stance we take: Committed to values.

The 2009 Financial Year

General Economic Setting

The global economy got off to anything but a successful start in 2009. The major loss of confidence in the economy as a result of the financial crisis brought about a breakdown in investment activity and a slump in world trade in the months around the turn of the year. The latter made itself felt in particular in Germany, which suffered a decline in gross domestic product (GDP) compared to the previous quarter of 3.5 % in the first quarter of 2009 owing to its major dependence on the export sector. There were even fears at the time that the global economy was facing a depression. However, the international coordination of monetary and fiscal policy was able to halt the downward spiral. For example, the European Central Bank (ECB) lowered the key interest rate to 1.0 % until May and made unlimited liquidity available to the banking system over the entire year. The promise to prevent the insolvency of further system-relevant banks made within the scope of the G20 meeting in London at the beginning of April in particular made a significant contribution to restoring confidence.

The Asian region, which was the quickest to return to its growth path thanks to high savings ratios, a solid banking system and major government economic aid, turned out to be the driving force behind the ensuing upswing. The German economy was also able to grow again in the second quarter, thereby putting an end to its recession. The Eurozone only managed to return to its expansion path in the third quarter. In addition to the stabilisation of world trade, the increase in sales in the automotive industry as a result of the wrecking bonus made a particular impact in Germany. The labour market was a further reason for the relatively solid private consumption in Germany. Considering the strength of the economic slump, there was only a moderate increase in unemployment. The short-time working benefits introduced by the government made a significant contribution to this development. The expenditure resulting from this and other measures to support the economy led to a major budget deficit in relation to GDP of 3.2 % in 2009. Below the line there remains a sobering balance for the 2009 business year with a decline in German GDP of around 5 %. The pressure on prices remained weak in this environment, with consumer prices increasing by only 0.4 % on average for the year.

The rescue packages introduced by governments and central banks throughout the world also left their mark on the financial markets. After getting off to a weak start, greater investor confidence led to the DAX ending 2009 with an increase of around 24 %. Significant price gains were also achieved with corporate bonds owing to a significant reduction in risk premiums. Driven by low central bank and money market rates among other things, European government bonds also ended the year with a clearly positive performance.

Profitability

With an increase in net profit for the year of 21.9 % to € 109.2 million, HSBC Trinkaus achieved a very solid result in the year under report providing evidence of the strength of our effective and client-oriented business model. This result enables us to pay an unchanged dividend compared to the previous year of € 2.50 per share and further strengthen reserves. Operating profit including net loan impairment and other credit risk provisions was down slightly on the previous year by 2.1 % to € 196.4 million. At 68.3 % the cost:income ratio as the main indicator of success remained within the adequate range for our business model of 65 % to 70 %.

The impact of our business model on the 2009 result varied considerably. On the one hand we were able to grow further in the business with corporate and institutional clients as well as trading, in some cases expanding our market position significantly. Benefiting from our financial strength, we were able to use the opportunities resulting from the major changes in the banking landscape. We want to remain firmly on this path, especially as the consolidation of the banking markets has only just begun. But we will continue to carefully weigh up the risks and opportunities and ensure that each client relationship is profitable.

On the other hand, we suffered a decline in revenues in the private banking business and had to make a considerable addition to net loan impairment and other credit risk provisions in the corporate banking business again for the first time in many years. Revenues in the private banking business declined due above all to the low interest rate policy pursued by the central banks, the sharp reduction in margins in the deposit business resulting as well as the restraint shown by investors in this uncertain stock market environment. Nevertheless, with our sustained client orientation and deliberately cautious market operations, we see good opportunities for us to grow further in this client segment as well, benefiting at the same time from changes in the competition. We continued to apply strict standards to net loan impairment and other credit risk provisions, carefully considering the still difficult economic environment in Germany with a further addition to collectively assessed impairments.

The individual items of the income statement developed as follows:

Net interest income was up 2.7 % to € 143.3 million. This is the result of widely varying trends in our business:

- There was a sharp decline in margins in the deposit business on account of the central banks counteracting the economic crisis with an easy money policy. We deliberately reduced the volume of deposits as we make no compromises with respect to the profitability of our business given our extremely good liquidity situation.

- On the other hand, margins in the lending business improved significantly owing to a clear move towards risk-adequate prices. Credit volumes declined slightly on average for the year as our clients have only relatively minor borrowing requirements in the current cyclical phase and have significantly tightened their working capital management. Order intake picking up again will lead to significantly greater borrowing requirements. We were able to increase our market share as we further expanded the business with clients with a good financial standing on a targeted basis thanks to our good capitalisation.

- Interest income from financial assets benefited in particular from our extremely good liquidity position.

We had to make a substantial addition to net loan impairment and other credit risk provisions again for the first time in several years. Both individually assessed impairments and collectively assessed impairment were increased significantly. On the other hand, we were able to reverse several individual impairments again in the year under report as well. Overall, we continue to apply strict standards to the assessment of default risks. The further course of the economic crisis will present a particular challenge to risk management in the lending business in the entire banking sector since the number of insolvencies is a lagging economic indicator. Thanks to the generally cautious approach we take to entering into risks, we see ourselves as relatively well equipped for the challenges that lie ahead.

At € 346.2 million in the year under report (2008: € 347.6 million) net fee income remains high and is by far the most important earnings component. Widely varying trends in our business are reflected here as well:

- In the securities business we were able to increase our result in a year-on-year comparison by 2.2 % to € 236.7 million despite a weak first half of the year. The consistent expansion of our depositary bank business made a significant contribution to this success. On the other hand, there was a substantial reduction in asset management revenues as the willingness of wealthy private clients to take risk and the risk-bearing capacity of institutional investors were not very pronounced.

- Net fee income from foreign exchange transactions and derivatives declined notably. The achievable margins in both the foreign exchange business and the business with interest rate and equity derivatives were significantly below the high prior-year level.

- In the traditional banking business such as credit business and payments there was a substantial increase in net fee income as we were able to use changes in the competition to our benefit. On the other hand, in the foreign business we were only able to partly compensate for the decline in the German economy's foreign trade with more risk-adequate margins.

- There was strong growth in the results in the issuing and structuring business in the year under report as we were represented very prominently in a large number of bond syndicates thanks not least to the strong placement power of the HSBC Group.

- The successful placement of a closed-end real estate fund is reflected positively in the real estate business.

Operative trading profit grew significantly by 20.1 % to € 117.9 million. Our proprietary trading activities remain focused on trading with equity-related products. We were once more able to gain market shares here in the retail business under our HSBC Trinkaus brand. The market for these products has become far smaller overall, above all with respect to products with a capital guarantee and other investment certificates. However, as we are traditionally very strong with respect to products for investors who are very close to the market and participate actively in trading, this decline only affected us far less than proportionately. In foreign exchange trading we were not able to repeat the very good prior-year result as the margins tended to weaken again after the rise the previous year. Interest rate trading on the other hand generated an extremely good result of € 46.2 million compared to € 2.4 million. Firstly, money market trading was again able to achieve a very good result on account of our liquidity position and client-related trading with registered Pfandbriefe and promissory note loans also did far better than in the previous year. Secondly, the bond portfolios also gave a particularly pleasing performance. The spread widening with respect to public-sector bonds, Pfandbriefe and bank bonds the previous year was now followed by significant spread narrowing to a large extent. The resulting strong valuation gains led to extraordinarily good net trading income. Since the markets have largely calmed down in the meantime, we see the past two years as characterised by crisis and therefore not representative of our result from interest rate trading.

Net trading income according to IFRS also includes profits from derivatives in the bank book of € 5.1 million resulting primarily from the hedging of a loan within the scope of our real estate business.

Administrative expenses were up 4.3 % to € 400.8 million. This includes a 2.4 % increase in personnel expenses to € 237.9 million, the result on the one hand of the slight increase in the number of employees in order to continue our growth strategy. On the other, the contribution to the Pension Security Association was significantly greater than in the past in the wake of the economic crisis. Thanks to our consistent cost management other administrative expenses rose moderately by 2.2 % to € 137.4 million. The increase was due mainly to the significantly higher contribution to the deposit guarantee fund in light of the financial market crisis. There was also a substantial increase in the depreciation of intangible assets. As weaker synergies made it necessary to adjust the business planning, partial goodwill amortisation was required.

Income from financial assets includes both realised losses of € 9.5 million and unrealised valuation losses of € 25.7 million. These are set against realised gains of € 9.4 million as well as write-ups on bonds of € 1.8 million. This means that income from financial assets was considerably better than in the previous year, but not satisfactory. As regards the valuation of our strategic financial assets, we have made no compromises in terms of our strict valuation standards. Instead, we have used the market value on the balance sheet date as a valuation rate for all equity holdings in the Annual Financial Statements if there has been a reduction in value of more than 20 % or for longer than nine months. However, an impairment reversal, as already began in the second quarter and continued to the end of the year, is not reported in the income statement, but in retained earnings according to IFRS. For bonds we have assessed the respective issuer risk individually and applied stringent standards, as is the case with net loan impairment and other credit risk provisions. An impairment can only be reversed where the original reason for impairment ceases to apply. Market values are calculated predominantly on the basis of market data taken from active markets, either directly based on market prices or using valuation models, which resort exclusively to observable parameters. As this is not possible only in individual cases, we have estimated individual parameters ourselves instead.

The asset situation

Total assets declined by 15.7 % in the year under report to € 18.7 billion. On the assets side, there was a decline in particular in trading assets compared to the previous year of 19.8 % to € 10.0 billion. Loans and advances to customers were down by 34.2 % to € 2.7 billion and loans and advances to banks by 18.5 % to € 2.4 billion. On the other hand, financial assets increased by 47.5 % to € 3.1 billion.

The decline in trading assets is the result firstly of a decline in the positive market values of derivatives which corresponds with a commensurate decline in the negative market values of derivatives in trading liabilities. This reflects market movements of foreign exchange transactions and interest rate derivatives above all. Secondly, there was a substantial decline in trading assets as investments were reduced significantly in the HSBC Group. These were mainly of a very short-term nature and served primarily the temporary investment of the extremely high volume of customer deposits at the previous year-end. Instead, we continue to strengthen our financial assets in the year under report. These consist largely of eligible bonds or promissory note loans issued by German federal states and can therefore be used for creating liquidity on a very short-term basis. Short-term realisability and eligibility is also an important decision criterion in the trading books. Our interest rate trading books include no positions resulting from acquisition financing or other transactions for which there is no longer a market today. The Bank has constantly avoided so-called toxic products.

There are various reasons for the decline in loans and advances to customers. The lower lending requirements of our clients were a significant factor here first of all since we continued to pursue our strategy in the client lending business of growing with our clients and dispensing with synthetic lending business. Even as times have become difficult, HSBC Trinkaus is a reliable partner for its clients and will remain so even in the event of a cyclical recovery and the higher borrowing requirements associated with it. The discontinuation of special transactions as well as the balance-sheet-date-related decline in the volume held on current accounts strengthened the effect with respect to loans and advances to customers. The decline in loans and advances to banks was mainly balance-sheet-date-related, with a large part of the decline attributable to deposits at other HSBC units.

On the liabilities side, customer accounts declined by 21.8 % to € 9.1 billion and trading liabilities by 15.5 % to € 5.2 billion. The recovery of the capital markets led to an increase in the level of investment of the investment funds clearly at the expense of short-term deposits. The decline in trading assets is the result firstly of the shrivelling certificates market in Germany and secondly of the decline in the negative market value of derivatives already commented on above. Our balance sheet is nevertheless still characterised by very high levels of customer deposits which account for more than three times our client lending business and almost 50 % of total assets. Thanks to this excellent liquidity position, we were able to easily compensate for the further slight decline in the volume of certificate and warrant placements.

The financial position

The Bank's liquidity position was very good throughout 2009. We deliberately hold large safety buffers with respect to the quantitative regulatory requirements relating to minimum liquidity with an average of 1.84 for the end-of-month positions according to the Liquidity Ordinance. In addition, we developed our monthly simulation calculations for the management of liquidity under normal and under stress conditions in close cooperation with the HSBC Group in the year under report. We have documented the main guidelines of our liquidity risk management in a comprehensive liquidity risk strategy.

Since 1 January 2008 we have been calculating the regulatory capital requirements according to the rules of the German Solvency Regulation (Solvabilitätsverordnung), via which the Basel II framework was adopted into national law. We continue to make use of the transitional provision under Section 64h para. 4 German Commercial Code (HGB) and when determining the adequacy of the capitalisation of the HSBC Trinkaus Group apply the procedure pursuant to Section 10a para. 6 German Banking Act (KWG). HSBC Trinkaus uses the internal-rating-based approach for counterparty risk and the basic-indicator-risk approach for operational risk. We further improved processes and attached greater importance to the consideration of security in the year under report.

In a reporting date comparison, the HSBC Trinkaus Group's positions requiring equity backing according to the regulatory provisions declined overall by 8.6 % to € 7.8 billion. The credit risk positions requiring equity backing declined by 13.2 % to € 5.9 billion. This is the result above all of the optimisation of our credit portfolio as well as the extended use of techniques of credit risk mitigation. The backing for market risks remains almost unchanged while a significant increase in backing for operational risks of 18.4 % to € 1.1 billion was needed in accordance with the regulatory requirements owing to our positive trend in earnings in recent years.

No capital increases were carried out in the HSBC Trinkaus group in 2009, not even for supplementary capital. However, HSBC Trinkaus & Burkhardt AG transferred € 130 million from the previous year's profit available for distribution to retained earnings in the year under report. We therefore see ourselves as still well equipped for the challenges presented by the banking business in Germany on the one hand and for further growth on the other. After the appropriation of profit we show a capital ratio of 14.8 % and a Tier 1 ratio of 10.4 %, which by far exceeds the banking supervisory requirements. We are in an excellent position even against the backdrop of the proposals to tighten the capital requirements for loan security currently being discussed in reaction to the financial market crisis. It is to be taken into consideration here in particular that the Bank raised no hybrid capital, but strengthened the Tier 1 ratio exclusively from capital and reserves.

Outlook for 2010

The global economy started out on the road to recovery over the course of 2009 and will continue along it this year. It will be propelled along in particular by the global continuation of expansionary monetary and fiscal policy. Positive impetus should also come from the inventory cycle since inventories are still at a very low level. The role of growth driver will be taken on by the emerging markets, where economic output is likely to grow by 6.2 % in 2010. But developed economies should also expand by 1.9 % after suffering a decline in gross domestic product last year.

The German economy is likely to benefit primarily in the export sector from the recovery of the global economy in 2010, leaving the other major economic regions of the Eurozone behind it with seasonally and calendar-adjusted growth of 1.6 %. We are expecting aggregate GDP growth of 1.2 % in the Eurozone. In this respect, there is no sign of a rapid return to the level of economic output reached before the crisis. The utilisation rate will therefore remain low. As we are also assuming a further rise in the unemployment rate and a higher external value of the euro, we expect the low pressure on prices to continue. There is therefore no need for the ECB to take immediate action. Against this backdrop we are not expecting a significant increase in capital market yields.

The German banking sector is in the middle of a crisis of unforeseen proportions which several leading institutions will only be able to survive with the help of the federal government and federal states. Some banks have only been saved from insolvency because the government has provided them with support in the form of taxpayers' money going into billions. The collapse of Lehman Brothers exemplifies the extent of the systemic risk in the global banking system. The support measures adopted by governments worldwide have prevented the collapse of further banks at risk and therefore the exacerbation of the crisis.

There is intense discussion at present over the regulatory measures with which governments want to prevent such a financial crisis arising again. These measures will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on business with three clearly defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than those of banks with strong investment banking activities and major dependence on proprietary trading.

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

We therefore want to use 2010 and the years ahead to gain additional market shares in all business segments. The focus is on the significant expansion of business with SME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

The basis for this expansion strategy is:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities.

- integration in the HSBC group, one of the world's largest and most financially sound banking groups which, like HSBC Trinkaus, did not have to resort to support from government bailout packages.

- a strong own balance sheet with solid capitalisation and a good refinancing base.

An expansion strategy in an economic crisis means higher risks, but also greater opportunities. The drastic economic downturn has put pressure on the earnings situation and the capital position in several, particularly export-oriented, industries. We are convinced, though, that there are companies even in difficult sectors with major innovative power, clearly focused business models and ambitious management which will emerge from the crisis in a stronger position. We know that expanding the portfolio in particular with SME corporate clients entails risks in the current economic situation and could lead to greater risk provisioning expenditure. On the other hand, the credit margins already reflect this situation today at least in part. As other banks tend to withdraw, we are confident that we can grow in the market without lowering our credit standards.

We experienced favourable price gains on the stock markets and a good bond market performance especially in the corporate bond segment from the beginning of the second quarter of 2009. Both had a positive impact on bank income statements. However, we do not believe that this trend will repeat itself in 2010.

There will be a decline in the overall volume of bank revenues in Germany in 2010 which will also continue in the following years. We can therefore only increase our revenues by realising the targeted gain in market shares. Net interest income will play a more important role than in 2009 as income from fees and commissions will remain under pressure. The reasons for this are the uncertainties on the equity markets as well as the restraint and reduced willingness to take on risk shown by the clients. Strict cost management is decisive in this situation. We are expecting only a moderate increase in our administrative expenses in the years ahead, but will make sure at the same time that the infrastructure is lastingly strengthened by sufficient investments. We plan to increase our operating profit compared to 2009 and assume that we can experience a positive trend in operating profit in the following years as well.

The precondition for this is that stock market prices do not fall sharply again, for example as the result of a double dip which the economy could suffer when the government economic support programmes come to an end. In addition, the pressure arising from credit risks is not likely to grow significantly beyond the level of risk provisioning in 2009. We anticipate that the credit ratings of individual companies to which we are linked via medium- and long-term financing commitments will deteriorate in 2010. This applies in particular to the export-oriented sectors. As our credit portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast. Firstly, negative repercussions on the money and capital markets with a corresponding decline in our securities commission would then be expected. Secondly, doubts over the stability of banks with a high exposure in problem countries could develop into a systemic risk.

We regard a target cost:income ratio ranging between 65 % and 70 % as adequate for our business model as a universal bank with a wide range of products. With a ratio of 68.3 % we were in the target corridor in 2009. For the current financial year and for 2011 we again anticipate a ratio in the upper half of the corridor.

We are expecting differing trends in each of our client segments. Revenues in the business with wealthy private clients declined in 2009. We hope that our efforts to acquire new clients will lead to higher revenues. The performance we are expecting in important assets classes will presumably make broad diversification of assets even more important than to date. We are confident that we will be able to expand our market position and are open to acquisitions in this client segment. Based on the good performance of our clients' assets, the concentration on the professional management of large assets and our broad service offerings, we have strong arguments on our side.

HSBC Trinkaus' collaboration with the globally active HSBC Group puts the Bank in a unique position in the Corporate Banking business. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Foreign competitors are withdrawing from the market as the capital support they received has made them dependent on their governments and they are having to concentrate on business in their domestic market as a result. This withdrawal presents a particular challenge for the supply of loans to the German Mittelstand. Our new expansion strategy, which also includes an extended service offer, will enable us to further increase our credibility as a reliable partner in the corporate banking business. The procyclicality of Basel II, as well as the expected further deterioration in the credit ratings of export-oriented clients in particular, will lead to an increase in capital backing in the lending business. We have already made allowance for this in our strategy. The growth in our client base in recent years together with our new expansion strategy suggests that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The currently low interest-rate environment is making it difficult for many institutional investors to achieve their target returns. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. As we have taken a cautious approach to high-risk structures, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available to our clients. We also have direct access to the global trading books, which also enable large-volume transactions and the assumption of risk, and can thus offer added value. We can only offer our clients limited risk capital for new investments in 2010. Owing to this and the slow-down in momentum in the debt capital market business, we expect transaction volumes and the associated earnings contribution to decline.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. We benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is far below the high volume seen in previous years and is limiting the earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2009. The earnings contribution in the Treasury business is likely to be significantly weaker as further interest rate cuts are hardly to be expected.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration into the HSBC Group. In order to avoid operational risk, we will introduce additional business process controls, even if this is accompanied by further costs. It is obvious, though, that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs. We therefore want to make greater use of the service centres of the HSBC Group in 2010 and the following years also for other areas of the Bank based on our very positive experience in IT.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 10 % of risk assets enables the return-oriented expansion of our business. At the same time, we are in the position if need to be able to carry out a capital increase for earnings-oriented growth. We will carefully observe the effects of regulatory changes which could lead to increased capital requirements. Where necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depository bank activities.

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

Risk Management

Definition

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

Principles of risk management policy

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

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

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

Since the beginning of the banking crisis, the old principle of "liquidity before profitability" has proven to be extremely valid in a market environment which has undergone drastic change. This was shown clearly by the spectacular collapse of the US investment bank Lehman Brothers and the numerous government support measures introduced for individual banks in financial difficulties. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2009 as well. We extended our liquidity reserves and paid strict attention when investing the funds accruing in the money and capital market to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds.

The second central challenge facing our risk management was and is managing counterparty risk. When the crisis began in the second half of 2007, the primary focus to begin with was on the default risks of other financial market participants; these risks were mitigated later on by government equity support and assistance with liquidity and replaced by an increasingly critical view of country risks. The problems in Iceland in 2008 and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public. Even the solvency of Eurozone member states was, and is again at present, being questioned.

The impact of the economic downswing on corporate loans came more to the fore in 2009. Corporate credit ratings deteriorated on account of the recession, and this trend continues. This will put the banks' corporate lending portfolios under major pressure in 2010 as well, a development we take into consideration in our credit risk management.

HSBC Trinkaus' market risk management was faced with a major challenge until early 2009. The situation eased then considerably from April 2009 on. In trading with derivative equity products, we were able to expand our market share by quoting reliable prices for warrants and certificates at all times. This involved an increase in gap risks which we were easily able to integrate into the Bank's capacity to assume risk, though. The trading books for controlling throughout the Bank suffered substantially in the first three months of 2009 from the widening of spreads, which exceeded expectations. However, they recovered over the further course of the year in line with the market trend. We will continue to develop the limit system based on this new experience.

What we are observing overall is that the higher risk in nearly all areas of the banking business since mid-2007 requires an increase in risk premiums.

Risk management – organisational structure

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

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

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

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

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

We implemented the new minimum requirements for risk management (MaRisk) on time at the end of 2009 and are preparing ourselves actively for the new requirements relating to liquidity risk.

Strategic risk

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

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

It is too early to judge at present whether HSBC Trinkaus' strategic situation will deteriorate because several competitors in the German banking market are using government state rescue packages to strengthen their equity and for state guaranteed refinancing. The risk premiums for counterparty risk have increased in the market in general and are tending to allow the risk-adequate pricing of banking services at present, although this trend is already starting to wane again. However, if the adjustment of risk premiums on account of government support is not lasting, it will mean the systematic distortion of competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation.

We made no substantial progress with the further modernisation of our IT architecture in 2008 as resources were tied up for the implementation of the flat-rate withholding tax. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the use of significant personnel and financial resources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further significant increase in the Bank's cost base. We completed the relocation of the computing centres to more modern locations with far greater operational security in the year under report. As a result, operational risk has been reduced, but the cost base has risen.

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

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

On a positive note, the Bank's strategic orientation has proven itself in the current crisis.

Counterparty risk

(a) Organisation of the credit processes

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

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

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

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

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

The Bank's central Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. The credit risk strategy coordinated with the Credit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to current requirements on a regular basis.

The Bank uses a 22-stage rating system to classify the credit quality of its corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. These systems are constantly being improved in detail. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and collateral agreements if required. In the private banking business, an internal risk assessment is carried out on expert level and a credit rating assigned accordingly. However, the lending business is of minor importance in this client segment and is carried out on a collateralised basis as a rule.

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

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

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

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

The credit risk is monitored on a daily basis with the help of a risk limit system which monitors whether the approved credit lines are complied with.

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

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

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

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

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

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

(b) Maximum default risk

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

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

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

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

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Loans and advances	**5,116.9**	**22.6**	**7,062.3**	**26.8**
to banks	2,429.4	10.7	2,979.7	11.3
to customers	2,687.5	11.9	4,082.6	15.5
Trading assets	**9,546.8**	**42.2**	**11,947.8**	**45.3**
Bonds and other fixed-income securities	4,839.7	21.4	6,945.4	26.3
Equities and other non-fixed-income securities	832.4	3.7	383.7	1.5
Tradable receivables	1,917.2	8.5	2,001.6	7.6
OTC derivatives	1,542.9	6.8	2,223.4	8.4
Reverse repos/securities lending	72.6	0.3	74.4	0.3
Cash deposits	346.6	1.5	319.3	1.2
Financial assets	**3,126.1**	**13.8**	**2,118.8**	**8.1**
Bonds and other fixed-income securities	2,567.4	11.3	1,720.1	6.6
Equities	29.8	0.1	21.4	0.1
Investment certificates	145.3	0.6	142.6	0.5
Promissory note loans	277.3	1.2	127.6	0.5
Interests in subsidiaries	106.3	0.5	107.1	0.4
Contingent liabilities	**1,569.2**	**6.9**	**1,747.5**	**6.6**
Loan commitments	**3,290.2**	**14.5**	**3,489.2**	**13.2**
Total	**22,653.8**	**100.0**	**26,365.6**	**100.0**

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

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

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a programme which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. If no valuation is available for certain securities, then an individual decision is made with the help of a credit analyst as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are excluded from this. A valuation or an account/securities account statement for these guarantees is obtained from the third-party bank on a regular basis, but at least once a year.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract. In contrast, assigned receivables and transfers of title to physical objects as security are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when valuing assignments the legal status of the pledge and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location and the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is stipulated which is applied to the receivables portfolio and to the pledged tangible assets.

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

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

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

The collateral value is automatically taken into consideration in the risk statement in respect of valued collateral.

If the collateral requirement for a credit line has not been fulfilled, i.e. either no collateral has been allocated in the system or the value of the collateral falls below the minimum value kept in the system, the line system reports that the credit line has been exceeded.

(d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

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

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	2,979.7	4,020.5	1,739.1	3,488.9	12,228.2
Overdue, but not impaired	0.0	1.9	0.7	0.2	2.8
Individually impaired*	0.0	60.2	7.7	0.1	68.0
Total	2,979.7	4,082.6	1,747.5	3,489.2	12,299.0

* Including the setting-up of credit risk provisions

Trading assets and financial assets (exclusively bonds)

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

in €m	31.12.2009			31.12.2008		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	1,959.7	1,064.9	3,024.6	2,166.8	700.2	2,867.0
AA+ to AA-	1,823.8	910.6	2,734.4	3,897.1	682.3	4,579.4
A+ to A-	734.5	320.6	1,055.1	600.3	150.0	750.3
BBB+ to BBB-	41.8	146.6	188.4	18.3	103.0	121.3
Lower than BBB–	1.8	18.4	20.2	0.3	13.8	14.1
No rating	278.1	106.3	384.4	262.6	70.8	333.4
Total	4,839.7	2,567.4	7,407.1	6,945.4	1,720.1	8,665.5

OTC derivatives

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

		31.12.2009		31.12.2008	
		in €m	in %	in €m	in %
OECD	Banks	1,130.0	73.5	1,623.0	73.0
	Financial institutions	228.4	14.8	224.9	10.1
	Other	179.1	11.6	374.2	16.8
Non-OECD	Banks	0.7	0.1	0.0	0.0
	Financial institutions	0.1	0.0	0.0	0.0
	Other	0.1	0.0	1.3	0.1
Total		1,538.4	100.0	2,223.4	100.0

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

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto 7 financial grades. Financial grades 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as of the balance sheet date was as follows:

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

in €m	31.12.2008				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit ratings 1 – 2	2,916.0	1,645.0	988.8	1,666.1	7,215.9
Credit ratings 3 – 4	55.0	2,291.3	737.0	1,822.8	4,906.1
Rating category 5	8.7	84.2	13.3	0.0	106.2
Total	2,979.7	4,020.5	1,739.1	3,488.9	12,228.2

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

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

The Bank's loans and advances which have not been impaired although overdue amounted to € 0.6 million in the year under report (2008: € 1.9 million) and are exclusively to customers. € 0.1 million (2008: € 0.5 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. We made no corresponding impairments on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at € 0.1 million in the year under report (2008: € 0.5 million).

There are also overdue, but not impaired claims resulting from excess interest of € 0.5 million (2008: € 0.4 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was € 0.5 million (2008: € 0.5 million).

There were no further overdue, but not impaired loans and advances to customers in the year under report (2008: € 1.0 million).

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

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, then we correct the probable recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experience assessment by the person responsible. The credit ratings 6 and 7 include problematic exposures for which net loan impairment and other credit risk provisions have been set up. Net loan impairment and other credit risk provisions set up to allow for country risks also include exposures with higher credit ratings. Net loan impairment and other credit risk provisions for country risks stood at € 3.0 million in the year under report (2008: € 3.1 million).

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

in €m	31.12.2009			31.12.2008		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before individually assessed impairments						
Credit ratings 1 – 5	0.0	0.0	0.0	0.0	5.2	5.2
Rating category 6	0.0	74.4	74.4	0.0	51.1	51.1
Rating category 7	0.0	6.0	6.0	0.0	3.9	3.9
Total	**0.0**	**80.4**	**80.4**	**0.0**	**60.2**	**60.2**
Individually assessed impairments						
Credit ratings 1 – 5	0.0	0.0	0.0	0.0	3.2	3.2
Rating category 6	0.0	25.2	25.2	0.0	9.6	9.6
Rating category 7	0.0	4.3	4.3	0.0	2.2	2.2
Total	**0.0**	**29.5**	**29.5**	**0.0**	**15.0**	**15.0**
Book value after IAI*	**0.0**	**50.9**	**50.9**	**0.0**	**45.2**	**45.2**

* IAI Individually assessed impairments

Within the scope of net loan impairment and other credit risk provisions HSBC Trinkaus also makes credit risk provisions for individual contingent liabilities and loan commitments which amounted to € 3.2 million in the year under report (2008: € 5.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 13.4 million (2008: € 6.4 million) for loans and advances and € 3.6 million (2008: € 1.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 63.3 million (2008: € 43.7 million) as of the balance sheet date.

(h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 26.9 million (2008: € 38.3 million) in the year under report.

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

Collateral received and other credit improvements amounting to € 26.7 million were realised and drawn on, respectively, in the 2009 financial year (2008: € 11.3 million).

(j) Information on credit risk concentration

There can be a concentration in the area of credit risks if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region.

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

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	9,439.0	41.7	12,584.9	47.7
Companies and self-employed professionals	8,068.7	35.6	9,191.2	34.9
Public sector	4,797.2	21.2	4,278.3	16.2
Employed private individuals	348.9	1.5	311.2	1.2
Total	22,653.8	100.0	26,365.6	100.0

	31.12.2009		31.12.2008	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	15,483.2	68.3	18,120.5	68.7
Other EU (including Norway and Switzerland)	5,885.8	26.0	6,814.3	25.9
North America	650.2	2.9	314.1	1.2
Asia	472.4	2.1	632.1	2.4
South America	70.5	0.3	430.8	1.6
Africa	39.9	0.2	18.9	0.1
Rest of Europe	33.8	0.1	31.4	0.1
Oceania	18.0	0.1	3.5	0.0
Total	22,653.8	100.0	26,365.6	100.0

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 2,674 million (2008: € 4,579.5 million).

It can be seen from the breakdown by region that a substantial part of the loans and advances is concentrated in Germany as well as in EU countries including Norway and Switzerland. As the political situation and law and order are stable in these regions, no increased default risks are to be feared.

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

A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus. The Credit Risk Control department has evolved from this project group. As the counterparty risk monitoring unit required by the supervisory authority, this department is responsible for the maintenance, monitoring and further development of the credit risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

(l) Credit portfolio management

The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks on portfolio level. For this purpose the Bank is still using a simplified portfolio model at present which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. We work very closely with the HSBC Group here and plan to introduce the portfolio model used on the Group level in line with the market in the near future. The results of the risk-sensitive analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

(m) Stress tests

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

Operational risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Market risk

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

To measure market risks in our trading book under normal market conditions for many years we have been using a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 5 of the Consolidated Financial Statements „Financial Instruments" for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in market parameters. With respect to interest rate risk we consider both general interest-rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from non-financials in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates
- Zero interest rates for typical maturities from swap, government bond and Pfandbrief yield curves
- Equity and equity index option volatilities for typical maturities
- Foreign exchange options volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

The inclusion of further spread risks in the risk model is in the conception phase; we are aiming for approval by the supervisory authorities in 2010. Issuer-specific interest-rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits, including limits for sensitivities and special stress scenarios.

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

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

in €m	2008			
	31.12.	Average	Minimum	Maximum
Interest rate transactions	2.9	2.5	1.9	4.0
Foreign exchange transactions	0.0	0.2	0.0	0.5
Equity and index transactions	3.8	1.6	0.7	4.0
Total potential market risk in the trading portfolio	**4.4**	**3.1**	**2.0**	**5.0**

Risks relating to interest rates and equities still represent the Bank's greatest market risks. As a result of the financial market crisis, there were far greater moves in the market on individual days. This led to higher risk parameters and therefore to slightly higher values at risk.

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

For the purposes of assuring risk-assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. No back-testing anomalies were found throughout the Bank in 2009. After two anomalies in 2008, this suggests that the risk modelling employed is probably on the conservative side given the major distortions on the financial markets in the meantime.

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

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

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

The average market risk potential in the investment book (99 % confidence interval / 1-day holding period) came to € 3.5 million (2008: € 1.2 million). Market risks in the Bank's investment book are limited to interest-rate as well as equity and other price risks. They are determined outside the risk models and are controlled at the executive management level.

Liquidity risk

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

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in order to remain solvent at all times, even in the event of extreme events.

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

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2009	2008
31.12.	1.79	1.57
Minimum	1.63	1.51
Maximum	2.08	1.83
Average	1.84	1.61
Reference value in accordance with Section 2 LiqV	**1.00**	**1.00**

The ratio of loans and advances to customers to customer deposits is a further central ratio for managing liquidity throughout the Bank. It stood at 29.7 % (2008: 35.2 %) at the end of the year. There was no material concentration of liquidity risks with respect to assets and financing sources or in respect of foreign currencies.

The extent and composition of the liquidity cushion consisting of liquid funds and liquid assets is of central importance with respect to liquidity management. The cushion is meant to secure the Bank's financial solvency even given unexpected outflows of funds. The minimum amount of the cushion is derived from a stress scenario which shows a major outflow of customer deposits, the immediate drawing on part of uncalled loan commitments, a decline in value of the debt securities held as collateral on account of market conditions and a strong increase in the collateral requirements of central counterparties. The scenario is meant to simulate the effect of a rating downgrade of up to three rating notches. The most important component of the liquidity cushion is the opportunity of refinancing at the central bank in order to cover unexpected liquidity requirements arising in the short term. As of 31 December we had deposited unused collateral with a collateral value of € 4.85 billion at the Bundesbank giving us potential access to central bank loans to this extent. However, we participated in main refinancing operations only once in 2009 in order to demonstrate the access to this source of refinancing, which we did not use otherwise.

In addition to the scenario relevant for calculating the liquidity cushion, we evaluate further scenarios within the scope of our monthly stress tests which differ in terms of the varying assumptions with respect to institution-specific or market-wide results. In each scenario we forecast the cumulative change in the accumulated liquid funds per maturity band. Alongside the maturity bands of one to seven days and seven days to one month, four further maturity bands up to one year are examined in which the balance of the cumulative inflows and outflows must remain positive in each case. Parallel to these stress tests, we draw up quarterly liquidity commitment reports and liquidity outflow analyses.

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

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk position. ALCO's duties include monitoring liquidity ratios, the liquidity cushion and liquidity stress tests as well as the regular adjustment of the emergency liquidity plan. ALCO is also responsible for transfer pricing for liquidity allocation within the Bank. In order to detect liquidity risk early on, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. Our three-stage emergency liquidity plan can be activated at short notice and ensures that the Bank can fulfil its payment obligations at any time, even without HSBC's support. At the same time, we are not permanently reliant on central bank liquidity to finance our business model. We want to fund our lending business entirely out of customer deposits or funds raised via bonds, certificates or promissory note loans, which is expressed not least in the parameters given above. Moreover, the constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit either.

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

We see liquidity risk as a consequential risk of a lack of confidence in providers of outside capital which is frequently prompted by expected losses in connection with credit, market or operational risks. As the latter risks are already to be backed with capital, we believe providing liquidity risk with its own capital backing makes no sense if the capital cushion is adequately endowed for other risks.

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

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

in €m	31.12.2008						
	Book value	Gross outflow (not discounted)					
		Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	2,709.1	2,737.1	2,469.8	16.0	63.7	182.0	5.6
Customer accounts	11,592.8	11,745.7	9,841.7	785.7	582.7	223.3	312.3
Certificated liabilities	10.0	13.5	0.4	0.0	0.0	1.2	11.9
Trading liabilities	6,152.9	6,948.1	2,244.4	273.0	1,223.7	817.2	2,389.8
of which derivatives	3,192.9	3,662.8	286.5	267.9	1,169.9	661.1	1,277.4
Provisions**	117.4	127.2	106.5	0.0	0.0	0.0	20.7
Other liabilities	108.2	116.1	26.2	50.4	12.1	14.1	13.3
Subordinated capital	458.7	732.4	5.0	3.0	68.8	37.2	618.4
Sub-total	21,149.1	22,420.1	14,694.0	1,128.1	1,951.0	1,275.0	3,372.0
Financial liabilities outside the balance sheet:							
Loan commitments	3,489.2	3,489.2	3,489.2	0.0	0.0	0.0	0.0
Total	**24,638.3**	**25,909.3**	**18,183.2**	**1,128.1**	**1,951.0**	**1,275.0**	**3,372.0**

* In accordance with the changes to IFRS 7 in March 2009, no derivatives in trading liabilities are included in the liquidity analysis by contractual residual term which do not serve to hedge the Bank's long-term positions.
** Net obligations pursuant to IAS 19 are recognised with their average term.

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

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

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

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Loans and advances to banks	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
	31.12.2008	2,190.7	561.6	227.4	0.0	0.0	0.0	2,979.7
Loans and advances to customers	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
	31.12.2008	2,688.0	558.9	453.9	149.3	232.5	0.0	4,082.6
Trading assets*/**	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
	31.12.2008	12,482.6	0.0	0.0	0.0	0.0	0.0	12,482.6
Financial assets	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
	31.12.2008	56.4	6.1	23.1	949.6	812.5	271.1	2,118.8
Other assets	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
	31.12.2008	16.3	0.0	40.6	0.0	0.0	202.3	259.2
Total	31.12.2009	**13,763.9**	**786.1**	**634.6**	**1,948.6**	**834.0**	**471.7**	**18,438.9**
	31.12.2008	**17,434.0**	**1,126.6**	**745.0**	**1,098.9**	**1,045.0**	**473.4**	**21,922.9**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Deposits by banks	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
	31.12.2008	2,468.9	15.9	62.0	158.2	4.1	0.0	2,709.1
Customer accounts	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
	31.12.2008	9,833.5	778.0	565.7	192.5	223.1	0.0	11,592.8
Certificated liabilities	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2008	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*/**	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
	31.12.2008	6,152.9	0.0	0.0	0.0	0.0	0.0	6,152.9
Provisions***	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
	31.12.2008	106.3	0.0	0.0	0.0	11.1	0.0	117.4
Other liabilities	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
	31.12.2008	26.1	49.9	11.7	12.2	8.3	0.0	108.2
Subordinated capital	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
	31.12.2008	5.0	3.0	66.3	31.0	353.4	0.0	458.7
Total	**31.12.2009**	**15,895.0**	**639.6**	**370.2**	**151.4**	**538.9**	**0.0**	**17,595.1**
	31.12.2008	**18,592.7**	**846.8**	**705.7**	**393.9**	**610.0**	**0.0**	**21,149.1**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 59.
** excluding derivatives which are part of a hedging relationship
*** Net obligations pursuant to IAS 19 are recognised with their average term

The ICS in the accounting process

General

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

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

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

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

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

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

Organisational structure

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

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

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

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

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

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

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt was Chairman of the Audit Committee until 31 December 2009. Further members at this point in time were Harald Hörauf, Eggstätt, and Mark McCombe, Hong Kong.

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

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

IT systems

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

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

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

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

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

General structure of the ICS

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

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

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

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

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

Specific components of the ICS

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

(a) Accounting guidelines

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

(b) Plausibility checks for all registers

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

(c) Reconciliation of the back-office systems

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

(d) Depositary reconciliation

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

(e) Internal accounts and securities accounts

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

(f) Reconciliation with affiliated companies

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

(g) Account statements and confirmations of open transactions

Settlement control sends out annual account statements for all customer accounts. For open transactions, in particular OTC derivatives (including foreign exchange transactions), the internal audit department separately reconciles all outstanding transactions with a random sample of counterparties on an annual basis.

(h) Reconciliation between Accounting and Controlling

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

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

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

(i) Reconciliation between Market Risk Control und Accounting

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

(j) Analysis of special business transactions

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

(k) Plausibility checks

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

(l) Overall reconciliation of the income statement

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

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

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

Staff

Number of employees and persons receiving pensions

We had a total of 2,280 employees at the end of 2009, compared to 2,238 at the end of the previous year. This represents an increase of 1.9 %. At the end of 2009 we were paying retirement, widow's and orphan's pensions to 556 recipients, compared to 544 at the end of 2008.

Training activities

A total of 35 highly motivated apprentices are currently working at the Bank towards professional qualifications in banking, office communication and IT.

In addition, six are working towards investment fund specialist qualifications at our HSBC INKA subsidiary and a further six towards professional office communication qualifications at HSBC Transaction Services GmbH (formerly ITS).

We are proud to report this year as well that a total of 20 apprentices at the HSBC Trinkaus Group successfully completed their training in 2009. One apprentice passed his final exams with the grade of "very good". We remain strongly committed to the qualified training of our employees.

Advanced training

We strive to constantly offer our clients major expertise and high quality with respect to our advisory service. The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore continue to make extremely high demands of our job applicants, also in view of future demographic trends. Only with specially qualified and motivated personnel can we meet our clients' challenging expectations in the long term. We therefore pay particular attention to the further training of our employees, which is developed on a needs-oriented and targeted basis. For example, we help them to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank. We also offer them leadership and acquisition seminars, coaching as well as communication and presentation training. Our various advanced training activities are rounded off by specialised Bachelor and Master occupational study and training courses, such as Chartered Financial Analyst (CFA) or Certified Financial Planner (CFP), as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). The selection of vocational training measures is subject to regular quality control and the recruitment of suitable trainers is geared towards the special requirements made of our employees in the various areas of our business.

Performance-related remuneration

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

Thanks

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

Shareholders and Shares

Capital

At 31 December 2009 the Bank's issued share capital was unchanged at € 70.0 million divided into 26.1 million no-par value shares. 52 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

As of the balance sheet date, HSBC Holdings plc, London, indirectly held an unchanged share of 78.6 % of this share capital and Landesbank Baden-Württemberg in Stuttgart directly held an unchanged share of 20.3 %.

Share price and market value

During 2009 our share price rose 10.1 % to € 98.00. The lowest fixing price of the year was € 77.00 and the highest € 100.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.60	317.50
31.12.1990	22,000,000	19.80	435.30
31.12.1995	23,500,000	30.60	718.50
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.80
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80

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

Dividends

For the 2009 financial year we propose paying a dividend of € 2.50 per share (2008: € 2.50 per share). With a dividend total of € 65.3 million we wish to ensure that our shareholders participate suitably in the profits we generated in 2009.

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Notes)	31.12.2009	31.12.2008	Change	
				in €m	in %
Cash reserve	(20)	177.0	139.5	37.5	26.9
Loans and advances to banks	(5, 21)	2,429.4	2,979.7	−550.3	−18.5
Loans and advances to customers	(5, 22)	2,687.5	4,082.6	−1,395.1	−34.2
Net loan impairment provision	(7, 23)	−42.9	−21.4	−21.5	> 100.0
Trading assets	(5, 24)	10,005.7	12,482.6	−2,476.9	−19.8
Financial assets	(5, 27)	3,126.1	2,118.8	1,007.3	47.5
Interests in associates	(26)	10.6	10.1	0.5	5.0
Property, plant and equipment	(10, 27)	83.3	81.1	2.2	2.7
Intangible assets	(11, 27)	44.1	56.0	−11.9	−21.3
Taxation recoverable	(15, 28)	13.0	17.5	−4.5	−25.7
current		13.0	13.0	0.0	0.0
deferred		0.0	4.5	−4.5	−100.0
Other assets	(29)	194.8	259.2	−64.4	−24.8
Total assets		**18,728.6**	**22,205.7**	**−3,477.1**	**−15.7**

Liabilities in €m	(Notes)	31.12.2009	31.12.2008	Change	
				in €m	in %
Deposits by banks	(5, 32)	2,697.6	2,709.1	−11.5	−0.4
Customer accounts	(5, 33)	9,062.1	11,592.8	−2,530.7	−21.8
Certificated liabilities	(34)	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	5,196.7	6,152.9	−956.2	−15.5
Provisions	(14, 36)	152.2	117.4	34.8	29.6
Taxation	(15, 37)	67.7	85.1	−17.4	−20.4
current		61.1	81.5	−20.4	−25.0
deferred		6.6	3.6	3.0	83.3
Other liabilities	(38)	95.3	108.2	−12.9	−11.9
Subordinated capital	(39)	384.4	458.7	−74.3	−16.2
Shareholders' equity	(40)	1,062.5	955.0	107.5	11.3
Share capital		70.0	70.0	0.0	0.0
Capital reserve		216.9	218.5	−1.6	−0.7
Retained earnings		654.7	566.8	87.9	15.5
Consolidated profit available for distribution		120.9	99.7	21.2	21.3
Minority interests	(41)	0.1	16.5	−16.4	−99.4
Total equity and liabilities		**18,728.6**	**22,205.7**	**−3,477.1**	**−15.7**

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

Income statement in €m	(Note)	2009	2008	Change	
				in €m	in %
Interest income		235.1	397.6	−162.5	−40.9
Interest expense		91.8	258.1	−166.3	−64.4
Net interest income	(42)	143.3	139.5	3.8	2.7
Net loan impairment and other credit risk provisions	(7, 44)	22.4	4.5	17.9	>100.0
Share of profit in associates	(43)	0.6	0.5	0.1	20.0
Fee income		575.1	606.5	−31.4	−5.2
Fee expenses		228.9	258.9	−30.0	−11.6
Net fee income	(45)	346.2	347.6	−1.4	−0.4
Net trading income	(46)	123.0	87.1	35.9	41.2
Administrative expenses	(47)	400.8	384.2	16.6	4.3
Income from financial assets	(48)	−24.0	−50.0	26.0	52.0
Net other income/expenses	(49)	−2.2	2.2	−4.4	>100.0
Profit before taxes		**163.7**	**138.2**	**25.5**	**18.5**
Tax expenses	(50)	54.5	48.6	5.9	12.1
Net profit for the year		**109.2**	**89.6**	**19.6**	**21.9**
Group profit/loss attributable to minority interests		1.6	−1.6	3.2	>100.0
Group profit/loss attributable to HSBC Trinkaus shareholders		107.6	91.2	16.1	18.0

Reconciliation from Net Income to Comprehensive Income

in €m	2009	2008
Net profit for the year	109.2	89.6
Gains/losses not recognised in the income statement	62.1	−41.2
of which from financial instruments	61.1	−28.7
of which from actuarial results	1.1	−12.5
of which from currency conversion	−0.1	0.0
(Total) comprehensive income	**171.3**	**48.4**
Attributable to:		
Minority interests	1.6	−1.6
HSBC shareholders	169.7	**50.0**

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

Earnings per share

	2009	2008
Net income after tax in €m	109.2	89.6
Minority interests in €m	1.6	– 1.6
Net profit after tax and minority interests in €m	107.6	91.2
Average number of shares in circulation in million	26.1	26.1
Earnings per share in €	**4.12**	**3.49**
Undiluted earnings per share in €	**4.12**	**3.49**

As in 2008, there were no option and conversion rights outstanding for the purchase of shares in the 2009 financial year. There was therefore no calculable dilution effect.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 18) had a material impact on earnings per share. The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2008: € 2.50 per share).

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Consolid-ated profit available for distribution	Share-holders' equity	Minority interests	Total in-cluding minority interests
At 31 December 2007	**70.0**	**216.9**	**486.7**	**195.1**	**968.7**	**0.0**	**968.7**
Dividend distribution				−65.3	**−65.3**		**−65.3**
Retention from 2007 profit available for distribution			121.3	−121.3	**0.0**		**0.0**
Addition from net profit for the year				91.2	**91.2**	−1.6	**89.6**
Changes in the group of consolidated companies						18.1	**18.1**
Share-based payments		1.6			1.6		1.6
Other changes			−41.2		**−41.2**		**−41.2**
At 31 December 2008	**70.0**	**218.5**	**566.8**	**99.7**	**955.0**	**16.5**	**971.5**
Dividend distribution				−65.3	**−65.3**		**−65.3**
Retention from 2008 profit available for distribution			20.9	−20.9	**0.0**		**0.0**
Addition from net profit for the year				107.6	**107.6**	1.6	**109.2**
Changes in the group of consolidated companies				−0.2	**−0.2**	−18.0	**−18.2**
Share-based payments		−1.6	4.9		**3.3**		**3.3**
Other changes			62.1		**62.1**		**62.1**
At 31 December 2009	**70.0**	**216.9**	**654.7**	**120.9**	**1,062.5**	**0.1**	**1,062.6**

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2009	2008
Net profit for the year	109.2	89.6
Non-cash items in net profit, and adjustments to reconcile net profit with net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	88.1	– 10.8
Net profit from the sale of investments and property, plant and equipment	0.6	0.3
Other adjustments (net)	– 96.2	– 48.8
Sub-total	101.7	30.3
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	550.3	1,137.3
Loans and advances to customers	1,394.4	193.0
Securities held for trading	1,520.7	– 2,381.2
Other assets	– 900.8	– 691.3
Liabilities	– 2,563.0	1,486.5
Other liabilities	– 21.8	– 1.8
Total adjustments	– 20.2	– 257.5
Interest receipts	232.9	396.9
Dividend receipts	2.2	0.6
Interest payments	– 91.8	– 258.2
Income taxes paid	– 32.7	– 20.3
Cash flow from operating activities	**192.1**	**– 108.2**
Proceeds from the sale of		
Financial assets	0.0	3.3
Property, plant and equipment	4.5	1.0
Payments for the acquisition of		
Financial assets	– 0.9	– 0.8
Property, plant and equipment	– 18.6	– 22.8
Cash flow from investing activities	**– 15.0**	**– 19.3**
Dividends paid to HSBC Trinkaus shareholders	– 65.3	– 65.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	– 74.3	0.0
Cash flow from financing activities	**– 139.6**	**– 65.3**

Cash and cash equivalents at beginning of period	**139.5**	**332.3**
Cash flow from operating activities	192.1	– 108.2
Cash flow from investing activities	– 15.0	– 19.3
Cash flow from financing activities	– 139.6	– 65.3
Cash and cash equivalents at end of period	**177.0**	**139.5**

Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2009 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration.

Confirmation of the financial statements is carried out in accordance with the legal provisions and – based on a proposal by the Management Board – is on principle the function of the Supervisory Board. Following approval, the Annual General Meeting passes the resolution on the appropriation of distributable profit.

To enhance transparency, all figures have been reported in millions of euros.

The consolidated financial statements were prepared and valued on a going-concern basis.

The consolidated financial statements include the balance sheet, the income statement, the statement of changes in equity, cash flow statement, and the notes.

At the end of 2009, HSBC Holdings plc had an indirect interest of 78.6 % in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on Accounting, Valuation and Consolidation Methods

1 Scope of Consolidation

The consolidated financial statements include as subsidiaries all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt AG, directly or indirectly holds the majority of the voting rights or over which it can exercise a controlling influence.

HSBC Global Asset Management (Switzerland) AG, which is headquartered in Zurich, was established in the financial year under review as a joint venture with HSBC Global Asset Management (Switzerland) AG, and recognised as equity on the balance sheet for the first time.

Grundstücksgesellschaft Kö 2 GmbH, Düsseldorf, and HSBC Trinkaus Bond Portfolio GmbH, Frankfurt am Main, were merged with HSBC Trinkaus Real Estate GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf, respectively, and are therefore no longer included within the scope of consolidation.

In addition, we have fully consolidated two special funds and one closed-end property fund (2008: two) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 63.

2 Consolidation Principles

In accordance with IAS 27 and 28, the accounting policies were applied consistently throughout the Group.

Differences arising from the consolidation of investments are calculated on the basis of the value of the new companies on the date of acquisition.

Intra-group claims and liabilities, income and expenses have been offset against each other; inter-company profits have been eliminated.

3 ▸ Foreign Currency Translation

For the purposes of foreign currency translation, pursuant to IAS 39 in conjunction with IAS 21, we distinguish between monetary and non-monetary financial instruments. Revaluations resulting from currency translation of monetary items are always recognised in the income statement. In the case of non-monetary items, the treatment of currency results depends on the way in which the other market-price-related revaluation results of the corresponding instrument are treated.

Income and expenses resulting from the translation of foreign currencies are entered under the same item in the income statement as the corresponding income and expenses from the respective underlying transaction.

Foreign exchange forwards are translated at the relevant forward rate on the balance sheet date. Spot foreign exchange trades, and assets and liabilities denominated in foreign currencies, are translated at the official reference rate of the European Central Bank or at other suitable spot rates of the last trading day of the year.

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. The equity capital available (subscribed capital, profit, capital, revaluation surplus) at the time of initial consolidation must be converted at the reporting rate (closing rate) on the date of initial consolidation and maintained at a constant level. Additions to retained earnings must be converted by the conversion rate of the respective year in which the corresponding net income was generated. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings.

Translation recognised in the income statement had no significant impact on the 2009 financial year, as in the previous year. Translation differences without effect on the income statement amounted to –€ 0.2 million (2008: € 0.0 million) and relate to a closed-end property fund in Australia as well as to a subsidiary in Hong Kong (cf. Note 63).

4 ▸ Business Combinations

IFRS 3 defines the application of the acquisition method for business combinations in which the buyer takes control of the company acquired. After the buyer's procurement costs are calculated, the assets and liabilities acquired must be valued at their fair value at the time of acquisition, within the scope of the business combination.

The extensive recognition and measurement provisions of IFRS 3 for tangible and intangible assets purchased, as well as for contingent liabilities and other items on the balance sheet, are applied. This also includes assets (such as client contracts) that did not qualify previously for recognition in financial statements.

If goodwill is to be recognised, because the purchase costs exceed the fair value of the net assets acquired, it must be reviewed for impairment at least once a year (impairment test) in accordance with IAS 36.

5 ▸ Financial Instruments

Recognition
HSBC Trinkaus recognises financial instruments in the balance sheet for the first time when the Group becomes a contractual party to the corresponding agreement, in accordance with IAS 39. Recognition for spot transactions (regular way contracts) is uniform on the trading day (trade date accounting), otherwise on the settlement date.

Financial instruments are derecognised fully, provided the Group has transferred the contractual rights to receipt of the cash flows from the financial instrument, plus all material risks and opportunities under such assets. If all opportunities and risks are not transferred, recognition is at the amount of the residual risk position, if we continue to exercise control over the financial instrument (continuing investment).

Transferred financial instruments, which do not qualify for derecognition, comprise mainly interest-bearing securities pledged as collateral within the scope of repurchase transactions or shares borrowed under securities lending transactions. Owing to the legal obligation to retransfer securities, all opportunities and risks incurred in relation to the genuine repurchase transactions remain with the transferor. The corresponding risks are: counterparty risk, foreign exchange risk and market risk. The same principle applies to securities lending transactions.

Reporting
Reporting, as well as the corresponding measurement classes and measurement categories, are included in the following overview.

Measurement class (IFRS 7)	Balance sheet item	Measurement category (IAS 39)
Measurement at amortised cost	Cash reserve	
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
	Certificated liabilities	Other liabilities
Measurement at fair value	Financial assets	Available for sale
	Trading assets/liabilities	Held for trading
Derivatives in hedging relationships	Trading assets/liabilities	
Off-balance-sheet business (IAS 37)	Contingent liabilities	
	Other liabilities	

IFRS 7 redefines the disclosure of financial instruments and groups the reporting rules together in one standard. Furthermore the standard contains disclosure requirements of risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

Measurement
All financial instruments are measured at fair value at acquisition. This generally equates to the transaction price initially, i.e. the fair value of the consideration. In addition, we allocate all financial instruments at initial recognition to the categories as defined in IAS 39, which are decisive for the subsequent measurement. We have implemented the rules as follows at the HSBC Trinkaus Group:

(a) Financial Assets or Liabilities at Fair Value through Profit or Loss
This category differentiates between financial instruments that are either classified irrevocably as held-for-trading (HfT) or at fair value through profit or loss upon initial recognition (fair value option). As in the previous year, we did not exercise the fair value option, so that the corresponding sub-category is not filled at present.

Besides all derivatives – including embedded derivatives which are required to be separated – financial instruments in the held-for-trading category include all positions which have been acquired for the purpose of generating short-term gains from changes in the market price.

As a rule, subsequent measurement is at fair value, where publicly traded market prices, if available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, such as those implemented by external software providers in the respective software. These are mainly present value methods and option price models. We have cooperated closely with HSBC to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters imposed are as differentiated as possible – for example, according to lifetimes, strike prices, etc. The choice of data sources used plus the allocation of measurement parameters and the applicable measurement method for the financial instruments in question are independent of trading. Provided all material measurement parameters cannot be observed for specific products, the measurement results from new transactions (day-1 profit or loss) in these products are not recognised in the income statement until maturity or when the position is closed out. There is no distribution over the transaction term. All realised gains and losses, as well as the unrealised measurement results, are reported under net trading income.

(b) Held-to-Maturity Investments
As in the previous year, no financial instruments were allocated to the held-to-maturity category.

(c) Loans and Receivables
The "loans and receivables" category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. Financial instruments are the exception here, which, owing to the short-term intention of the category to resell the assets, are allocated to the held-for-trading category. The corresponding loans and receivables are measured at amortised cost.

Discounts and premiums are recognised proportionately within interest income. Impairments on loans and receivables are reported under net loan impairment provision.

(d) Financial Assets Available for Sale
The "available-for-sale" category includes on the one hand all financial instruments and is on the other the residual variable of the financial assets; in other words, it also includes the financial instruments not allocated to any of the three other measurement categories of IAS 39. These consist of securities (including registered bonds), acquired loans and advances and investments.

Subsequent measurement of financial instruments in this category is at market value. The measurement methods are identical to those used for the measurement of held-for-trading financial instruments. Changes in value vis-à-vis the net acquisition costs are reported under shareholders' equity with no effect on the income statement.

There are no sufficient measurement parameters for holdings in partnerships and specific unlisted public limited companies: on the one hand, no price is quoted for these financial instruments in an active market. On the other, it is impossible to reliably determine the market value, since the volatility of possible securities is too great or no probability of event can be attributable to the individual securities. These holdings are measured at amortised cost.

In the event of a reduction in value due to counterparty or sovereign risk (impairments), (direct) write-downs to the lower market value are made. The impairment test is carried out on the occasion of every interim report. The impairments are reported in income from financial assets. Objective evidence of impairment on a debt instrument is included as income immediately. Write-ups affecting the income statement up to maximum amortised cost are recognised as soon as the reason for the write-down no longer applies. Equity instruments are written down if the market value is significantly or permanently below original cost. A decline in the fair value of at least 20 % below the original cost is considered significant. If the fair value has fallen permanently below original costs in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the market value in both cases. If the reasons for impairment cease to exist for equity instruments – unlike debt instruments – no write-up with effect on the income statement is made. Rather, the corresponding write-ups are recognised directly in retained earnings.

(e) Other Liabilities

The other liabilities category includes all financial liabilities not allocated to the fair value category. They are therefore not measured at fair value through profit and loss, but at amortised cost: as a rule, other liabilities are carried at their settlement amount. Non-interest-bearing liabilities, such as zero coupon bonds, are measured at their interest rate as at the balance sheet date.

(f) Reclassification

As in the previous year, the option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

6 ▸ Hedge Accounting

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, HSBC Trinkaus applied the provisions for the reporting of hedge relationships in accordance with IAS 29 (hedge accounting) for the first time in the year under report. The market value of the fixed-income bonds (hedged item) depends on changes in the market interest rate (e.g. five-year rate) on the one hand and on liquidity and risk premiums for the issuer (so-called spreads) on the other. HSBC Trinkaus hedges against market interest rate-induced volatility (designated portion of the hedged item) by concluding interest rate swaps with other banks (hedging instrument), which largely compensates for the fluctuations in the market value of the bonds. This hedging of market value fluctuations (so-called fair value hedges), the interest rate-induced volatility plus the interest rate swaps of the fixed-income bonds are recognized in the income statement in accordance with IAS 39. The spread-related market value fluctuations of the bonds are not hedged (unhedged portion of the hedged item). These are transferred to retained earnings in line with the subsequent measurement of available-for-sale securities, without effect on the income statement.

The reporting of hedging relationships in the balance sheet in accordance with IFRS is linked to a series of requirements that are largely related to documentation of the hedging relationships and effectiveness of the hedging measures. The following data in particular must be documented at the time of entering into a hedging relationship (inception of a hedge): the identification of the hedge and the underlying transaction, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

HSBC Trinkaus uses a linear regression model to assess the effectiveness of the hedge transaction. The model examines the linear correlation between the cumulative changes in value in the underlying transaction and the cumulative changes in value of the hedge transaction. The so-called coefficient of determination (R-square) provides information about the direction of the correlation through the quality of the regression and the steepness of the regression straight line (slope).

The proof of effectiveness requires higher expected effectiveness for a hedging relationship in the future (prospective effectiveness) on the one hand. Proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness) on the other. Sufficient effectiveness within the scope of the prospective test requires an R-square of greater than 0.9 and a slope of between – 0.9 and – 1.1. An R-square of greater than 0.8 and a slope of between – 0.8 and 0 1.2 is adequate for the retrospective effectiveness test.

7 ▸ Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions on the one hand as net loan impairment provision on the assets side and on the other as provisions for credit risks on the liabilities side. The item net loan impairment and other credit risk provisions distinguishes between individually assessed impairments/provisions on the one hand and collectively assessed impairments/provisions on the other.

Individually assessed impairments in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 rating categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on counterparty risk in the consolidated financial statements for further explanations – especially on calculating impairments/provisions.

Furthermore, impairments/provisions are created on a portfolio basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general impairment/provision will then be calculated on the basis of the respective default probabilities and economic indicators.

Where it is determined that a loan cannot be repaid, the uncollectible amount is first written off against any existing individually assessed impairments, and/or directly recognised as expense in the income statement.

8 ▸ Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities (cf. Note 35).

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet item trading assets (cf. Note 24); this facilitates more appropriate reporting. Securities purchased under agreements to resell are not reported.

The Bank does not enter into non-genuine repurchase transactions.

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions were reported under the balance sheet item trading assets or trading liabilities (cf. Notes 24 and 35).

9 ▸ Share of Profit in Associates

On the one hand, we reported the associated company SINO AG, Düsseldorf, under the share of profit in associates. Owing to SINO AG's different financial year, the figures published for the previous quarter are used in the accounting process. On the other hand, HSBC Global Asset Management (Switzerland) AG, which was established as a joint venture with HSBC Global Asset Management (France), Paris, is taken into consideration here.

10 ▸ Property, Plant and Equipment

The property, plant and equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment.

Hardware and other operational and business equipment are valued at cost less regular depreciation. The useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the expected useful life of the asset and is based on the following useful lives throughout the Group:

	Useful life in years
Hardware	3
Motor vehicles	6
Fixtures/operating facilities	10
Furniture	13
Buildings	50

Depreciation that exceeds wear-and-tear-related erosion is taken into consideration under impairments. Where the reasons cease, corresponding write-ups are made.

11 ▸ Intangible Assets

Items disclosed under intangible assets include standard software. In-house development work carried out within the scope of software projects is capitalised in accordance with IAS 38. Intangible assets are valued at purchase or production cost less regular depreciation on a straight-line basis over the expected useful life of the asset of three to ten years. In addition to regular depreciation, impairment tests are also carried out to value fixed assets (cf. Note 10).

Intangible assets also include the goodwill resulting from the acquisition of the former ITS (referred to today as HSBC Transaction Services). The goodwill is not subject to any scheduled amortisation. An impairment test is carried out instead at least once a year, in accordance with IAS 36. The enterprise value is calculated using a discounted cash flow method, where future cash flows are estimated and discounted by a market interest rate.

12 ▸ Leasing

Group companies are involved in the leasing business exclusively as lessees. All leasing contracts signed are operating lease agreements. In operating lease agreements, all risks and benefits attendant upon ownership remain with the lessor, which also carries the leased item on its balance sheet. For this reason, the Group treats lease payments as rental payments reported under administrative expenses.

13 ▸ Treasury Bonds and Shares

The Bank holds its treasury bonds only to a limited extent and, in accordance with the IFRS requirements, offsets them against the liability items arising from the issuance of bonds.

As at the end of 2009, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 78,458 treasury shares were bought at an average price of € 87.37 (2008: € 100.97) and sold at an average price of € 87.47 (2008: € 100.81). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.28 % (2008: 0.01 %) of the subscribed capital.

14 ▸ Provisions

Provisions for pensions and uncertain liabilities are reported under provisions.

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method. Within the scope of a Contractual Trust Arrangement (CTA) certain assets were transferred into a trust corporation as collateral for pension obligations and therefore qualified as plan assets within the meaning of IAS 19.7. Actuarial profits and losses from the performance of the plan assets and the pensions are reported under shareholders' equity with no effect on the income statement after the deduction of deferred taxes. The expected income from the plan assets is offset against the expected pension expenses in the income statement.

Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure.

15 ▸ Taxation Recoverable and Taxation

Current tax expenses are calculated in accordance with the tax rates applicable for each individual company. Current taxation recoverable is offset against current taxation provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when realignment of the valuations occurs. The deferred taxation is calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable or deferred taxation will be adjusted accordingly (cf. Note 51).

16 ▸ Share-based Payments

Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (one, three and five years). In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses derived from this – apportioned to the respective blocking period – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (so-called acceleration of vesting). If an existing bonus programme is modified, a distinction must be made as to whether the fair value of the approval at the time of the modification exceeds or falls short of the original fair value.

If the modified fair value exceeds the original fair value of the approval, the excess amount must be recognised in the income statement, in addition to the previous service costs over the vesting period. If the fair value is lower, the previous service costs remain unchanged; in other words, the modification is ignored.

In addition, the performance-related remuneration components for employees and the Management Board are, over a certain volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in different tranches within or at the end of the vesting period, and is generally subject to continued service for the Bank. It is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; personnel expenses are spread over the vesting period.

17 ▸ Reporting of Income and Expenses

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers, and income from financial assets. Interest expense includes expenses arising from deposits by banks and customer accounts, as well as liabilities in certificate form and subordinated capital. The Bank recognises dividends at the time of the legal creation of the dividend entitlement with an effect on the income statement.

Net fee income includes above all income from securities, foreign exchange and derivatives business, as well as from special advisory services (e.g. Investment Banking). Fee income and expenses are recognised in the income statement whenever the service is performed.

All unrealised and realised trading results are reported in net trading income. This also includes interest and dividend income alongside price gains/losses, as well as the proportional refinancing costs of the trading activities.

The results from derivatives held in the banking book are also reported in net trading income.

18 ▸ IFRS Treatment Applied

IFRS 8, Operating Segments, was published on 30 November 2006 and is obligatory for all financial statements that start on or after 1 January 2009. The new standard will essentially adopt the management approach to segment reporting and was already applied in 2008 ahead of schedule.

In September 2007, the International Accounting Standards Board (IASB) published amendments to IAS 1, Presentation of Financial Statements, which are also obligatory for financial years starting on or after 1 January 2009. These changes lead to adjustments to the statement of changes in equity, which should now show income and expenditure without effect on the income statement, that do not arise from transactions with or between shareholders, as a summary item (other changes). On the other hand, these „other changes" should now be outlined in detail in the Consolidated Statement of Comprehensive Income. The necessary changes were carried out in the year under report and the corresponding comparable figures were adjusted accordingly.

The IASB also published changes to IFRS 7, Financial Instruments: Disclosures in March 2009.

These must be applied for financial years beginning on or after 1 January 2009. They lead to extended notes on the financial instruments recognised at fair value as well as on liquidity risk. The additional reporting rules were already complied with voluntarily in part in the previous year. All other necessary changes were applied in the year under report.

The other standards or interpretations which were applied for the first time in 2009 had no material impact.

On 12 November 2009, the IASB published Standard IFRS 9, Financial Instruments. The aim of the standard is to completely revise the accounting of financial instruments in a three-part project and thus replace Standard IAS 39 applicable to date. IFRS 9 sets out the new requirements for the classification and measurement of financial assets and will have a substantial influence on HSBC Trinkaus' accounting. The adoption of the standard is mandatory for financial years starting on or after 1 January 2013. Early adoption is permitted for 2009 year-end financial statements. HSBC Trinkaus has not been able to make use of this option as the standard is still awaiting EU endorsement.

Other standards and interpretations not yet compulsory for 2009 will not have any material effect on the Bank.

19 ▸ Material Events occurring after the Balance Sheet Date

No transactions materially affecting the assets, financial position and profitability of the company took place during the period between the balance sheet date and the date on which these accounts were prepared.

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2009	31.12.2008
Cash and cash equivalents	3.6	2.8
Balances with the central bank	173.4	136.7
Total	177.0	139.5

Balances held with central banks are held mainly with the Deutsche Bundesbank and continue to be almost exclusively in euros.

The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

21 Loans and Advances to Banks

in €m	31.12.2009	31.12.2008
Current accounts	361.2	865.6
Money market transactions	1,923.8	2,049.6
of which overnight money	109.8	0.0
of which term deposits	1,814.0	2,049.6
Other loans and advances	144.4	64.5
Total	**2,429.4**	**2,979.7**
of which to domestic banks	1,442.0	1,768.0
of which to foreign banks	987.4	1,211.7

Loans and advances to banks also include our deposits within the HSBC Group. The reduction in the volume held on the current accounts is attributable to the reporting date.

22 Loans and Advances to Customers

in €m	31.12.2009	31.12.2008
Current accounts	980.9	1,481.2
Money market transactions	620.9	1,023.3
of which overnight money	79.3	190.8
of which term deposits	541.6	832.5
Loan accounts	1,063.4	1,573.5
Other loans and advances	22.3	4.6
Total	**2,687.5**	**4,082.6**
of which domestic customers	1,933.0	2,902.4
of which foreign customers	754.5	1,180.2

Based on an unchanged credit risk strategy, loans and advances to customers declined as our customers remain prudent in respect of borrowing in the current economic phase. This also impacts on receivables from syndicated loans. For this reason, some loans were repaid in full and the utilisation of some current credit lines was reduced. The decline in the volume held on the current accounts is largely attributable to the reporting date.

23 Net Loan Impairment and Other Credit Risk Provisions

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

in €m	31.12.2009	31.12.2008
Net loan impairment provision	42.9	21.4
Provisions for credit risks	6.8	6.8
Net loan impairment and other credit risk provisions	**49.7**	**28.2**

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. The increase is largely a result of the increase in individually assessed and collectively assessed impairments.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2009	2008	2009	2008	2009	2008
As at 1.1.	15.0	12.5	6.4	3.7	21.4	16.2
Reversals	3.5	1.0	0.0	0.0	3.5	1.0
Utilisation	0.9	0.2	0.0	0.0	0.9	0.2
Additions	18.9	3.6	7.0	3.4	25.9	7.0
Currency translation effects/ transfers	0.0	0.1	0.0	−0.7	0.0	−0.6
As at 31.12.	**29.5**	**15.0**	**13.4**	**6.4**	**42.9**	**21.4**

Provisions for credit risks developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2009	2008	2009	2008	2009	2008
As at 1.1.	**5.2**	**6.6**	**1.6**	**0.9**	**6.8**	**7.5**
Reversals	2.0	1.4	0.0	0.0	2.0	1.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	2.0	0.0	2.0	0.0
Currency translation effects/ transfers	0.0	0.0	0.0	0.7	0.0	0.7
As at 31.12.	**3.2**	**5.2**	**3.6**	**1.6**	**6.8**	**6.8**

24 ▸ Trading Assets

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	4,839.7	6,945.4
of which:		
public-sector issuers	2,294.5	2,350.4
other issuers	2,545.2	4,595.0
of which:		
listed	4,404.4	4,519.4
unlisted	435.3	2,426.0
Equities and other non-fixed-income securities	832.4	383.7
of which:		
listed	832.3	383.4
unlisted	0.1	0.3
Tradable receivables	1,917.2	2,001.6
Positive market value of derivatives	1,992.6	2,758.2
of which:		
OTC derivatives	1,538.3	2,223.4
exchange-traded derivatives	454.3	534.8
Reverse repos	72.3	72.3
Securities lending	0.3	2.1
Security in the derivatives business	346.6	319.3
Derivatives held in the banking book	4.4	0.0
Derivatives in hedging relationships	0.2	0.0
Total	**10,005.7**	**12,482.6**

The change is due primarily to the reduction in debt instruments of other banks of the HSBC Group. Debt instruments from public-sector issuers in the form of bonds and tradable receivables are largely unchanged. Tradable receivables are recognised mainly as promissory note loans and registered bonds. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 35).

The securities lending and collateral items in the derivatives trading business comprise funds that we pledged as collateral (cf. Notes 31 and 61).

25 ▸ Financial Assets

Financial assets comprise the bank's strategic positions, which are broken down as follows:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	2,567.4	1,720.1
of which:		
public-sector issuers	660.5	317.2
other issuers	1,906.9	1,402.9
of which:		
listed	2,477.2	1,591.7
unlisted	90.2	128.4
Equities	29.8	21.4
Investment certificates	145.3	142.6
Promissory note loans	277.3	127.6
Investments	106.3	107.1
Total	3,126.1	2,118.8

All financial assets are assigned to the available-for-sale category in accordance with IAS 39. The increase in bonds serves to strengthen our liquidity portfolio.

The difference between the fair value and amortised cost price is as follows:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	64.0	16.0
Equities	5.7	0.0
Investment certificates	6.7	– 12.8
Promissory note loans	18.8	15.6
Investments	40.4	35.9
Total	135.6	54.7

The recovery on both bond and equity markets has significantly increased the positive difference.

26 ▸ Share of Profit in Associates

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

in €m	2009	2008
Book value as at 1 January	**10.1**	**15.2**
Additions	0.3	0.0
Share of results of financial year	0.6	0.5
Elimination of interim result	0.0	0.0
Dividend distribution	– 0.4	– 0.8
Disposals	0.0	– 4.8
Book value as at 31 December	**10.6**	**10.1**

In addition to the associated company SINO AG, Düsseldorf, the participating interest in the HSBC Global Asset Management (Switzerland) AG, Zürich, joint venture was also consolidated at equity in the 2009 financial year. The market value of the retained SINO AG shares amounted to € 6.3 million as at the balance sheet date (2008: € 5.8 million). All in all, the assets and the liabilities of the companies consolidated at equity amount to € 10.2 million and € 7.0 million respectively, on profit before taxes of € 4.0 million.

27 Investment Overview

in €m	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2009	94.3	62.0	156.3	95.5
Increases	0.2	14.4	14.6	3.8
Disposals	2.5	6.0	8.5	0.0
Acquisition costs as at 31.12.2009	92.0	70.4	162.4	99.3
Depreciation as at 01.01.2009	35.5	39.7	75.2	39.5
Scheduled depreciation	1.3	8.5	9.8	9.5
Non-scheduled depreciation	0.3	0.0	0.3	6.2
Depreciation of reversals	0.9	5.3	6.2	0.0
Depreciation as at 31.12.2009	36.2	42.9	79.1	55.2
Carrying amount as at 31.12.2009	**55.8**	**27.5**	**83.3**	**44.1**
Carrying amount as at 31.12.2008	**58.8**	**22.3**	**81.1**	**56.0**

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

28 Taxation recoverable

in €m	31.12.2009	31.12.2008
Current taxation recoverable	13.0	13.0
Deferred taxation recoverable	0.0	4.5
Total	**13.0**	**17.5**

Current taxation recoverable relates predominately to domestic taxes.

29 Other Assets

Other assets of € 194.8 million (2008: € 259.2 million) include one building (2008: two) with a book value totalling € 128.8 million (2008: € 154.7 million), which is marketed within the framework of a closed-end property fund. In this context, interest on borrowing of € 4.8 million (2008: € 9.3 million) was capitalised.

Additionally, this item predominately includes excess cover from our CTA of € 18.7 million (2008: € 16.5 million) and other taxes of € 11.9 million (2008: € 18.4 million).

30 Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2009	31.12.2008
Bonds and other fixed-income securities	126.9	145.5
Profit-participation certificates	6.7	22.1
Total	133.6	167.6

31 Repurchase Agreements and Securities Lending

The following overview shows the securities we pledged and which cannot be written off in accordance with IAS 39, as well as the associated financial liabilities.

In addition to treasury securities, we also pledged securities that we had previously received within the scope of securities lending transactions and repurchase agreements. All of the transferred securities are reported under trading assets.

in €m	31.12.2009		31.12.2008	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	38.0	11.4	47.5	20.9
Total	38.0	11.4	47.5	20.9

The following table provides an overview of the securities received:

in €m	31.12.2009		31.12.2008	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	88.9	72.3	86.9	72.3
of which may be sold or pledged	88.9		86.9	
of which are already sold or pledged	0.0		0.0	
Securities lending transactions	69.5	0.3	221.4	2.1
of which may be sold or pledged	60.9		157.5	
of which are already sold or pledged	8.6		63.9	
Total	**158.4**	**72.6**	**308.3**	**74.4**

The overview includes the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 61). The transactions were carried out at normal market conditions.

32 Deposits by Banks

in €m	31.12.2009	31.12.2008
Current accounts	563.5	625.3
Money market transactions	1,961.3	1,869.5
of which overnight money	11.9	26.4
of which term deposits	1,949.4	1,843.1
Other liabilities	172.8	214.3
Total	**2,697.6**	**2,709.1**
of which domestic banks	741.5	858.0
of which foreign banks	1,956.1	1,851.1

As at 31 December 2009 deposits by banks secured by charges on real property amounted to € 65.6 million (2008: € 20.1 million). In addition to the balances on our accounts held with our correspondent banks, deposits by banks comprise mainly deposits from other banks of the HSBC Group.

33 Customer Accounts

in €m	31.12.2009	31.12.2008
Current accounts	5,686.8	6,064.5
Money market transactions	3,040.4	5,066.4
of which overnight money	346.4	685.8
of which term deposits	2,694.0	4,380.6
Savings deposits	33.6	12.9
Other liabilities	301.3	449.0
Total	**9,062.1**	**11,592.8**
of which domestic customers	6,193.1	8,707.4
of which foreign customers	2,869.0	2,885.4

Customer accounts continue to represent our main refinancing source. The change in customer accounts is largely due to a decline in term deposits, which were at an extremely high level owing to the crisis affecting financial markets in the previous year.

34 Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10 million (2008: € 10 million).

35 Trading Liabilities

in €m	31.12.2009	31.12.2008
Negative market value of derivatives	2,452.9	3,190.8
Discount certificates, promissory note loans, bonds and warrants	2,637.1	2,852.4
Delivery obligations arising from securities sold short	17.7	39.5
Securities lending	11.4	20.9
Security in the derivatives business	74.4	47.2
Derivatives held in the banking book	0.0	2.1
Derivatives in hedging relationships	3.2	0.0
Total	**5,196.7**	**6,152.9**

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading divisions. These issues are recognised accordingly as trading liabilities pursuant to IAS 39, and are valued at fair value. The decline in the negative market value of the derivatives corresponds with the falling positive market value of the derivatives (cf. Note 24).

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

36 ▸ Provisions

in €m	As at 01.01.2009	Utilisation	Reversals	Additions/ compounding	Transfers	Actuarial result	At 31 December 2009
Provisions for pensions and similar obligations	11.2	3.8	0.0	4.1	2.2	– 1.6	12.1
Provisions related to human resources	57.0	46.8	1.4	49.8	0.0	0.0	58.6
Provisions for credit risks	6.8	0.0	2.0	2.0	0.0	0.0	6.8
Provisions for other taxes	2.7	0.0	0.0	0.0	0.0	0.0	2.7
Other provisions	39.7	8.1	5.4	45.8	0.0	0.0	72.0
Provisions	117.4	58.7	8.8	101.7	2.2	– 1.6	152.2

Provisions for Pensions and Similar Obligations

Various pension payment and benefit regulations exist for employees depending on the date the employee joined the Group, as well as on the country of incorporation of the respective Group company.

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

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. Furthermore, there are two endowments that bear 6.0 % and 7.5 % interest, respectively.

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 4.8 million in the year under report (2008: € 4.6 million).

Provisions for pensions and similar obligations are computed in accordance with actuarial principles using the projected unit credit method. These calculations are performed annually and are currently based on the following parameters:

in %	31.12.2009	31.12.2008
Long-term base rate of interest	5.5	5.75
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	6.0	6.0

Due to the stabilisation on the money and capital markets, which resulted in falling risk premiums on fixed-rate industrial bonds, the base interest rate was lowered to 5.5 % in the year under report (2008: 5.75 %).

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2010.

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

Development of Pension Obligations

in €m	2009	2008
Pension obligations as at 1.1.	180.0	176.9
Service costs	5.0	5.4
Interest expense	10.2	10.3
Pensions paid	–10.6	–9.9
Change in scope of consolidation	0.0	2.0
Transfers and others	0.0	0.1
Change in actuarial gains and losses	6.2	–4.8
Pension obligations as at 31.12.	190.8	180.0

Within the scope of the calculation of pension obligations, parameters that are naturally characterised by uncertainties are estimated on a regular basis. An increase in the long-term base interest rate to 5.75 % would lower the pension obligations by € 5.6 million. On the other hand, if the long-term base interest rate were to fall to 5.25 %, pension obligation would increase by € 5.9 million.

Breakdown of Pension Obligations

in €m	2009	2008	2007	2006	2005
Non-funded pension obligations	8.1	6.7	4.3	4.8	4.8
Funded pension obligations					
Present value of pension obligations	182.7	173.3	172.6	192.4	198.0
Fair value of plan assets	197.4	185.3	201.7	196.6	181.6
Balance	–14.7	–12.0	–29.1	–4.2	16.4
of which plan shortfall	4.0	4.5	2.8	5.6	16.4
of which plan excess	18.7	16.5	31.9	9.8	0.0
Total pension obligations	12.1	11.2	7.1	10.4	21.2
of which actuarial gains and losses					
from plan assets	–16.6	–24.4	–1.1	0.4	1.2
from plan obligations	–17.6	–11.4	–16.2	–39.0	–49.5

The change in the plan excess is shown in the provisions in the transfers column.

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to € 23.3 million after taxes (2008: € 24.4 million). Although falling interest rates created actuarial losses on the obligations side, these were more than compensated for by the positive performance of the plan assets.

Development of the Fair Value of Plan Assets

in €m	2009	2008
Fair value of plan assets as of 1.1.	**185.3**	**201.7**
Additions / withdrawals	–6.8	–5.8
Estimated income from plan assets	11.1	12.6
Change in scope of consolidation	0.0	0.1
Change in actuarial gains and losses	7.8	–23.3
Fair value of plan assets as of 31.12.	**197.4**	**185.3**

The actual profits from plan assets in the year under report amounted to € 18.9 million (2008: losses of € 10.7 million). A reduction to 5.75 % in the planned return on plan assets would have increased the actuarial result by € 0.4 million. An increase in the planned return to 6.25 % would have reduced the actuarial result by € 0.5 million.

Breakdown of the Fair Value of Plan Assets

in €m	2009	2008
Bonds and other fixed-income securities	114.3	132.7
Equities	25.7	15.0
Discount / index certificates	20.7	9.5
Re-insurance claims from life insurance	15.0	14.1
Investment funds	6.7	4.6
Closed-end property funds	4.0	4.0
Other	11.0	5.4
Fair value of plan assets as of 31.12.	**197.4**	**185.3**

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

Provisions for credit risks include provisions for anticipated losses in connection with endorsement liabilities, sureties, acceptances and credit commitments. They are part of net loan impairment and other credit risk provisions (cf. Note 23).

The provisions for other taxes essentially include expected payment obligations resulting from auditing for taxes on commercial capital, salaries, turnover and capital from the previous years.

Other provisions include above all provisions for contingent liabilities, especially in conjunction with risks in the property business, with interest rate risks from tax audits as well as IT services still subject to final negotiations.

37 ▸ Taxation

in €m	31.12.2009	31.12.2008
Current taxation	61.1	81.5
Deferred taxation	6.6	3.6
Total	67.7	85.1

Current taxation includes provisions for taxation that are likely to be paid on the basis of the tax accounts of the fully consolidated Group companies, less previous tax prepayments; our obligations arising from any taxation to be paid as a result of current and future audits are also reported under this item.

Deferred taxation is our future tax burdens or relief, formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 51).

As in the previous year, deferred taxation recoverable is offset against deferred taxation if the prerequisites for offsetting exist.

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

in €m	31.12.2009	31.12.2008	Change
	As shown in the balance sheet		
Share-based payments	7.2	6.3	0.9
Trading portfolio*	6.0	3.8	2.2
Intangible assets	2.1	2.1	0.0
Loss carried forward	0.0	–1.1	1.1
Derivatives held in the banking book	–0.7	–3.0	2.3
Buildings	–1.1	–0.9	–0.2
Net loan impairment and other credit risk provisions	–2.0	1.6	–3.6
Pensions	–2.4	–3.1	0.7
Financial assets	–8.3	0.1	–8.4
Provisions	–10.0	–2.3	–7.7
Recognised in the Income Statement	**–9.2**	**3.5**	**–12.7**
Financial Instruments	26.8	7.0	19.8
Foreign currency translation	–0.1	0.0	–0.1
Pensions	–10.9	–11.4	0.5
With effect on equity	**15.8**	**–4.4**	**20.2**
Deferred taxes	**6.6**	**–0.9**	**7.5**
of which taxation recoverable	0.0	4.5	–4.5
of which taxation	6.6	3.6	3.0

* Balance from measurement differences in all trading activities

38 ▸ Other Liabilities

in €m	31.12.2009	31.12.2008
Liabilities from other taxes	10.6	15.8
Deferred income	22.6	27.5
Accrued interest on		
Subordinated liabilities	7.1	8.3
Participatory capital	4.9	7.4
Other	50.1	49.2
Total	**95.3**	**108.2**

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

39 ▸ Subordinated Capital

in €m	31.12.2009	31.12.2008
Subordinated liabilities (promissory note loans, bonds)	284.4	322.9
Participatory capital	100.0	135.8
Total	**384.4**	**458.7**

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or more occasions by 29 May 2011 up to a total amount of € 250 million. As in the previous year, no use was made of this facility in the last financial year.

In the event of liquidation, insolvency, or proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against HSBC Trinkaus have been met. All subordinated claims have equal priority. No subordinated liabilities can be terminated prematurely by creditors. Profit-participation certificates can be terminated prematurely by HSBC Trinkaus if there is a change in the tax framework, subject to two years' notice of termination.

Subordinated capital of € 365.8 million (2008: € 396.2 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to section 10 (5a) of the German Banking Act (KWG).

For the 2009 financial year, interest payable amounts to € 14.1 million (2008: € 16.2 million) on subordinated liabilities and to € 6.1 million (2008: € 7.4 million) on profit-participation certificates.

Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€m) 31.12.2009	Nominal amount (€m) 31.12.2008
5 % or lower	100.2	128.2
Over 5 % up to 8 %	159.2	169.7
Fixed rates	259.4	297.9
Variable rates	25.0	25.0
Total	284.4	322.9

Repayment	Nominal amount (€m) 31.12.2009	Nominal amount (€m) 31.12.2008
Up to 1 year	6.0	38.5
Over 1 year up to 5 years	80.2	86.2
Over 5 years	198.2	198.2
Total	284.4	322.9

40 ▸ Shareholders' Equity

As at 31 December 2009, share capital was unchanged at € 70.0 million. As before, this is divided into 26,100,000 notional no par value shares.

The Management Board is authorised to increase the share capital by up to € 35.0 million on or before 31 May 2013, with the Supervisory Board's approval, through one or more issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to € 35.0 million by means of issuing no-par value bearer shares. The conditional capital increase may only be carried out to the extent that the holders of convertible and option rights make use of the conversion and option rights under the convertible bonds or bonds cum warrants or profit participations rights to be issued on or before 31 May 2013 (conditional capital).

Valuation reserve for financial instruments

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

in €m	2009	2008
Net valuation reserve as at 1.1.	47.5	76.2
Disposals (gross)	2.7	–28.6
Market fluctuations (gross)	54.3	–44.2
Impairments (gross)	23.9	43.7
Deferred taxes	–19.8	0.4
Net valuation reserve as at 31.12.	108.6	47.5

Shareholders' Equity in Accordance with the German Banking Act (KWG)

A bank's capital for regulatory purposes is divided into three components – core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily share capital plus the capital reserve and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominately of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

According to the regulatory requirements, banks are obliged to quantify their counterparty, market and operational risks, and to back them with eligible capital. Market risks result from the interest rate and share price risk on the trading portfolio, as well as foreign exchange risk, commodity risk and other positions exposed to market risk. Counterparty risk may be backed only by core and supplementary capital, while market risk can also be backed by tertiary funds. The minimum mandatory total capital ratio is 8 %. At the same time, at least 4 % of the risk-weighted assets must be backed by core capital. The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis. The regulatory ratios following confirmation of the balance sheet are as follows:

in €m	2009	2008
Core capital (Tier I)		
Consolidated, core capital as disclosed on the balance sheet	858	803
Intangible assets	–41	–49
Total core capital	**817**	**754**
Supplementary capital (Tier II)		
Subordinated liabilities	263	294
Participatory capital	100	100
Unrealised profits from listed securities	47	31
Consolidation	–15	–14
Total supplementary capital	**395**	**411**
Adjustment items	–52	–14
Regulatory capital excluding ancillary capital	**1,160**	**1,151**
Ancillary capital (Tier III)	**0**	**0**
Total regulatory capital	**1,160**	**1,151**
Risk-weighted assets	5,925	6,825
Market risk equivalent	800	813
Operational risk	1,125	950
Risk exposure	**7,850**	**8,588**
Core capital ratio in %	**10.4**	**8.8**
Equity ratio in %	**14.8**	**13.4**

Thanks to our good capitalisation, we have been able to continue to pursue our growth strategy within the framework of our successful business model.

The availability of adequate shareholders' equity is fundamental to the management of the Bank, in order to adequately cover the risks inherent in banking. We have deliberately exceeded the regulatory requirements quite considerably in order to be prepared to achieve organic growth and deal with fluctuations in the course of business, whilst creating scope for appropriate strategic acquisitions. All in all, we want to maintain a minimum total capital ratio of 10 %. Please refer also to the comments on the Bank's financial position in the Group Management Report.

An analysis of the economic capital requirement complements our management of shareholders' equity, which is focused on the regulatory requirements. Although the introduction of the Basel II Accord considerably improved the risk-measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and the available risk cushions in our business, in conjunction with the issue of the Bank's risk-bearing capacity even in extreme stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees, and the statistical databases feature different qualities, so that an aggregation of the risk is not quite without its problems. We continued to refine the calculation of economic capital requirements in 2009.

Ultimately it can be said that the Bank's risk-bearing capacity is unchanged and its capitalisation adequate. This is also confirmed by the business results for the 2009 financial year.

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

41 ▸ Minority Interests

Minority interests comprise investments in one closed-end property fund (2008: two) that is fully consolidated in the consolidated financial statements.

Notes on the Consolidated Income Statement

42 Net Interest Income

in €m	2009	2008
Interest income	**235.1**	**397.6**
From loans and advances to banks	36.4	127.0
Money market transactions	30.9	111.1
Other interest-bearing receivables	5.4	15.9
Reverse repos	0.1	0.0
From loans and advances to customers	95.9	190.6
Money market transactions	21.6	55.7
Other interest-bearing receivables	74.3	134.9
From financial assets	102.8	80.0
Interest income	99.4	77.2
Dividend income	2.2	0.6
Income from subsidiaries	1.2	2.2
Interest expense	**91.8**	**258.1**
From deposits by banks	17.2	60.0
Money market transactions	12.3	47.9
Other interest-bearing deposits	4.9	12.1
From customers accounts	53.9	174.0
Money market transactions	23.3	82.7
Other interest-bearing deposits	30.6	91.3
From securitised liabilities	0.4	0.4
From subordinated capital	20.2	23.6
Other	0.1	0.1
Net interest income	**143.3**	**139.5**

During the year under report, we achieved net interest income of € 143.3 million (2008: € 139.5 million) and therefore succeeded once again in exceeding the previous year's level.

The general fall in interest rates led to a significant decline in interest income and interest expense in the year under report.

The decline in the margin in the deposit-taking business on almost unchanged average volume for the year led to lower net interest income in our client business, which could not be offset by higher margins in the lending business. Financial assets were responsible for the material improvement in interest income since we invested a considerable portion of our liquidity in bonds with impeccable ratings.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 4.5 million (2008: € 5.3 million).

43 Share of Profit in Associates

The share of profit in associates resulted mainly from our interest in SINO AG. At € 0.6 million, the result is down slightly on last year (2008: € 0.5 million).

In the year under report, HSBC Global Asset Management (Switzerland) AG, Zürich, was accounted for at equity for the first time as a joint venture (cf. Note 1).

44 ▸ Net Loan Impairment and Other Credit Risk Provisions

in €m	2009	2008
Additions	27.9	7.0
Reversals	5.5	2.4
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.1
Total	22.4	4.5

Additions to net loan impairment and other credit risk provisions amounted to € 22.4 million (2008: € 4.5 million). The increase is largely attributable to additions of € 18.9 million to individually assessed impairments due to the threat of defaults in a small number of high-volume credit exposures. Our conservative stance is unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks. This once again facilitated the reversal of individually assessed impairments in the amount of € 5.5 million in the year under report (2008: € 2.4 million).

In addition, collectively assessed impairments increased by € 9.0 million (2008: € 3.4 million), thus reflecting the general economic downturn and the associated higher potential risks in our loan book.

45 ▸ Net Fee Income

in €m	2009	2008
Securities transactions	236.7	231.6
Foreign exchange transactions and derivatives	51.6	61.0
Issuing and structuring business	13.7	10.9
Foreign business	12.5	13.5
Lending	8.8	5.0
Payments	6.6	6.0
Investment banking	3.1	2.7
Real estate	1.2	0.3
Other fee-based business	12.0	16.6
Total	346.2	347.6

The fee-based business, which accounted for 55.9 % of operating profit (2008: 59.0 %), remains a crucial factor to the Bank's success. We achieved another favourable result of € 346.2 million and are therefore almost on par with the previous year's level (2008: € 347.6 million).

On account of the burgeoning optimism on equity markets in the second half of the year, we achieved an increase of € 5.1 million or 2.2 % for the year as a whole, despite fewer securities transactions in the first half-year. The € 2.8 million increase in the issuing and structuring business to € 13.7 million is also positive. This, together with the € 3.8 million increase in the lending business to € 8.8 million (2008: € 5.0 million), reflects the confidence placed by our clients in our ability to raise external capital and their perception of us as a reliable partner.

Trust activities performed by the Group in its own name, but for the account of third parties, are not recognised in the balance sheet. As in the previous year, net fee income includes practically no income or expense from trust activities.

46 ▸ Net Trading Income

in €m	2009	2008
Equities and equity/index derivatives	63.9	87.0
Bonds and interest rate derivatives	46.2	2.4
Foreign exchange	7.8	8.8
Derivatives held in the banking book	5.1	– 11.1
Total	123.0	87.1

At € 123.0 million, net trading income is significantly higher than last year's result (2008: € 87.1 million). This increase is due largely to our interest-related business, where we succeeded in increasing our result by € 43.8 million, to € 46.2 million (2008: € 2.4 million). The extraordinarily good result generated in money market trading was based on our excellent liquidity situation. In addition, the spread-tightening associated with the stabilisation of the money and capital markets led to significant valuation gains on fixed-income securities, which met set against considerable valuation losses the year before.

Trading in equity and equity/index derivatives fell by € 23.1 million to € 63.9 million (2008: € 87.0 million) in the year under report. This development is largely attributable to the slump in demand for investment certificates. We substantially extended our market share in the business with trading-oriented retail products and therefore formed the basis further positive net trading income.

The valuation losses incurred in the previous year on derivatives held in the bank book were offset again in part.

47 ▸ Administrative Expenses

in €m	2009	2008
Staff expenses	237.9	232.3
Wages and salaries	205.4	202.8
Social security costs	21.9	21.5
Expenses for retirement pensions and other employee benefits	10.6	8.0
Other administrative expenses	137.4	134.4
Depreciation of property, plant and equipment and of intangible assets	25.5	17.5
Total	400.8	384.2

Other administrative expenses include € 24.3 million (2008: € 18.8 million) in expenses arising from rental and lease payments.

Administrative expenses climbed moderately in the year under report, by € 16.6 million or 4.3 % to € 400.8 million (2008: € 384.2 million). This was due to a slight increase in staff expenses, which is reflected by a corresponding rise in the number of staff employed. Furthermore, increased expenses for payments to the Pension Security Association were taken into account.

The increase in other administrative expenses includes, among other things, higher contributions to the deposit guarantee fund (EInlagensicherungsfond).

The significantly higher impairment losses result from goodwill impairment created in the year under report in conjunction with the business combination in 2008 with the former ITS (now known as HSBC Transaction Services) (cf. Note 4). An extraordinary impairment loss of € 1.9 million (2008: € 0.0 million) on software components that were no longer required was also taken into consideration in the year under report (cf. Note 27).

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

in €m	2009	2008
Expenses for defined benefit plans	4.1	3.1
of which current service costs	5.0	5.4
of which interest expense	10.2	10.3
of which estimated income from the plan assets	– 11.1	– 12.6
Expenses for defined contribution plans	4.8	4.6
Other expenses for retirement provisions	1.7	0.3
Total	10.6	8.0

48 Income from Financial Assets

A loss of € 24.0 million from financial assets was reported in 2009 compared with a loss of € 50.0 million the year before, largely on account of impairments on our portfolio. Overall, we recognised impairments in the amount of € 23.9 million (2008: € 43.7 million), a large proportion of which is accounted for by equity and investment funds in the banking book that showed signs of a significant or permanent impairment, and were therefore written down to their lower market values in the income statement. In addition, fixed-income securities, whose ratings were downgraded, were written to their lower market values.

At the same time, write-ups of € 1.8 million (2008: € 0.0 million) on previously impaired fixed-income securities could also be taken into account.

On balance, the sale of financial assets – investment funds in particular – generated a loss of € 2.7 million, compared with a loss of € 6.3 million the year before.

The following table highlights the composition of the realisation gains from financial assets from the performance of previous years and of the year under report:

in €m	2009	2008
Income statements		
Net gain/loss from disposal	–2.7	–6.3
Tax expenses	0.9	2.0
Net realisation gain in the income statement	**– 1.8**	**–4.3**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	2.7	6.3
of which volatility in the year under report	–1.7	19.2
of which volatility in previous years	4.4	– 12.9
Performance of corresponding tax expenses		
Change from disposals (derecognition)	–0.9	–2.0
of which volatility in the year under report	0.5	–6.1
of which volatility in previous years	–1.4	4.1

The following table shows how the impairments or write-ups on financial assets are attributable to the performance of previous years and of the year of impairment/write-back:

in €m	2009	2008
Income statement		
Impairments/write-ups on financial instruments	–23.9	–43.7
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	23.9	43.7
of which volatility in the year under report	17.0	42.9
of which volatility in previous years	6.9	0.8
Performance of corresponding tax expenses		
Changes from impairments/write-ups	–4.1	–16.3
of which volatility in the year under report	–2.9	–16.0
of which volatility in previous years	–1.2	–0.3

49 Net Other Income / Expenses

in €m	2009	2008
Other operating income	20.0	10.0
Other operating expenses	8.4	6.5
Other operating income/expenses	**11.6**	**3.5**
Other income	2.4	0.1
Other expenses	16.2	1.4
Other net income	**–13.8**	**–1.3**
Net other income/expenses	**–2.2**	**2.2**

Other operating income essentially includes € 4.6 million (2008: € 4.9 million) from the reversal of other provisions, € 3.9 million (2008: € 0.0 million) from the placement of real estate funds and € 3.8 million (2008: € 1.7 million) in rental income.

Other operating income/expenses also include for the first time the hedge result that amounted to a loss of € 0.1 million (cf. Notes 6 and 59).

Other expenses of € 16.2 million (2008: 1.4 million) include for the most part provisions of € 15.6 million for the business with closed-end real estate fund plus impairments of € 0.3 million (2008: € 1.0 million) on land and property. The impairment is recognised on the basis of the annual valuation carried out by an external appraiser on the respective reporting date and reflects the change in the economic valuation of a property. For the purposes of segment reporting, impairments are allocated to the "Central Divisions/Consolidation" business segment (cf. Note 54).

As in the previous year, no write-ups were required on land and property in the year under report.

Other net income also includes gains/losses from the disposal of property, plant and equipment totalling € 2.1 million (2008: € 0.3 million). Repairs, maintenance and other measures required for the upkeep of property, plant and equipment are recorded as expenses in the financial year in which they were incurred.

50 ▸ Tax Expenses

in €m	2009	2008
Current taxes	66.8	100.5
of which off-period	0.2	–2.5
Deferred taxes from change in limited valuation differences	–12.5	–51.9
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**54.3**	**48.6**

As in the previous year, the effective corporation tax in Germany is 15.8 %. Taking trade income tax into account, the combined tax rate is unchanged at approximately 32.0 %. The rate also forms the basis for calculating deferred taxes.

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

in €m	2009	2008
Pre-tax profit	163.7	146.2
Tax rate (%)	32.0	32.0
Tax expenses derived from profit before taxes	52.4	46.7
Tax rate differential on income proportions subject to taxation outside of Germany	–1.6	–1.0
Effect from unused losses carried forward	0.5	2.0
Effect from tax-exempt income and non-tax deductible expenses in accordance with Section 8 b KStG	0.0	0.9
Taxes for previous years	0.2	–2.1
Non-deductible expenses from share-based payments	1.6	0.3
Modifications for the purposes of trade tax	0.9	1.2
Miscellaneous	0.5	0.6
Reported taxation	**54.5**	**48.6**

51 ▸ Calculation of Operating Profit

in €m	2009	2008	Change	
			in €m	in %
Interest income	235.1	397.6	–162.5	–40.9
Interest expense	91.8	258.1	–166.3	–64.4
Net interest income	143.3	139.5	3.8	2.7
Net loan impairment and other credit risk provisions	22.4	4.5	17.9	>100.0
Net interest income after net loan impairment and other credit risk provisions	120.9	135.0	–14.1	–10.4
Share of profit in associates	0.6	0.5	0.1	20.0
Fee income	575.1	606.5	–31.4	–5.2
Fee expenses	228.9	258.9	–30.0	–11.6
Net fee income	346.2	347.6	–1.4	–0.4
Net trading income	117.9	98.2	19.7	20.1
Staff expenses	237.9	232.3	5.6	2.4
Other administrative expenses	162.9	151.9	11.0	7.2
Administrative expenses	400.8	384.2	16.6	4.3
Other operating income/expenses	11.6	3.5	8.1	>100.0
Operating profit	**196.4**	**200.6**	**–4.2**	**–2.1**
Income from financial assets	–24.0	–50.0	26.0	–52.0
Income from derivatives in the bank book	5.1	–11.1	16.2	>100.0
Other net income	–13.8	–1.3	–12.5	>100.0
Pre-tax profit	**163.7**	**138.2**	**25.5**	**18.5**
Tax expenses	54.5	48.6	5.9	12.1
Net profit for the year	**109.2**	**89.6**	**19.6**	**21.9**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (cf. Note 50). A breakdown of operating profit by business segment is shown in Segment Reporting (Note 54).

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

52 Income Statement by Measurement Category

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

Measurement category 31.12.2009 in €m	Loans and receivables	Other financial instruments	Held-for-Trading	Derivatives in hedging relationships	Available-for-sale	Other financial liabilities	Other	Total
Net interest income								
Interest income	128.9	3.4			102.8			235.1
Interest expense						−91.8		−91.8
Net fee income								
Fee income	9.1						566.0	575.1
Fee expenses	−0.3						−228.6	−228.9
Net trading income			123.0					123.0
Income from financial assets					15.5			15.5
Net other income/expenses				−0.7	0.6		−2.1	−2.2
Impairments								
Net loan impairment and other credit risk provisions	−18.6						−3.8	−22.4
Income from financial assets					−39.5			−39.5
Total	**119.1**	**3.4**	**123.0**	**−0.7**	**79.4**	**−91.8**	**331.5**	**563.9**

Measurement category 31.12.2008 in €m	Loans and receivables	Other financial instruments	Held-for-Trading	Derivatives in hedging relationships	Available-for-sale	Other financial liabilities	Other	Total
Net interest income								
Interest income	307.6	10.0			80.0			397.6
Interest expense						−258.1		−258.1
Net fee income								
Fee income	5.1						601.4	606.5
Fee expenses	−0.1						−258.8	−258.9
Net trading income			87.1					87.1
Income from financial assets					−6.3			−6.3
Net other income/expenses							2.2	2.2
Impairments								
Net loan impairment and other credit risk provisions	−5.9						1.4	−4.5
Income from financial assets					−43.7			−43.7
Total	**306.7**	**10.0**	**87.1**	**0.0**	**30.0**	**−258.1**	**346.2**	**521.9**

Other Notes

53 Notes to the Cash Flow Statement

IAS 7 (Cash Flow Statements) requires all companies to draw up a cash flow statement. However, the value of the information it provides, as part of the annual accounts of financial institutions, is relatively limited. It shows movements in cash and cash equivalents arising from additions and disposals in the Group over the course of the financial year.

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fee income, the at-equity result, operating trading income and the balance of other operating income and expenses, minus administrative expenses and net loan impairment and other credit risk provisions.

The summary item "Other adjustments (net)" in the cash flow statement essentially comprises net changes to deferred taxes, the change in taxation recoverable as well as tax expenses paid, interest and dividends received minus interest paid.

Cash and Cash Equivalents
As in the previous year, the cash and cash equivalents of € 177.0 million (2008: € 139.5 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

Cash Flow from Operating Activities
Consolidated cash flows from operating activities for the Group are presented according to the indirect method, which derives them from net profit for the year.

Consolidated net profit for the year of € 109.2 million (2008: € 89.6 million) is the input figure for the cash flow statement. Gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to € 101.7 million (2008: € 30.3 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash Flow from Investing Activities
Spending on the acquisition of property, plant and equipment totalled € 18.6 million in the 2009 financial year (2008: € 22.8 million). The sale of property, plant and equipment realised € 4.5 million (2008: € 1.0 million) for the Group. In the 2009 financial year, the sale and purchase of financial assets realised a net outgoing payment of € 0.9 million (2008: € 2.5 million receipt of payment).

Cash Flow from Financing Activities
Cash flow from financing activities includes the dividend of € 65.3 million for the 2009 financial year (2008: € 65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in a payment of € 74.3 million (2008: € 0.0 million).

54 Segment Reporting

The segment reporting prepared by HSBC Trinkaus & Burkhardt in accordance with IFRS 8 provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions, and should help them gain a more differentiated picture of the economic performance of the Group.

The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits as a key component of the Management Information System (MIS). The MIS serves as one of the Bank's central management and controlling tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis.

Hence, the segment reporting covers the following business areas, which are essentially structured to meet the needs of our clients:

Private Banking
The Private Banking business division offers the clients of HSBC Trinkaus extensive advisory and management services for larger private portfolios. In addition to general portfolio management and advisory services, this involves special services such as advice on asset structuring, execution of wills, real estate advisory services as well as Family Office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

Corporate Banking
The Corporate Banking division of HSBC Trinkaus offers large and medium-sized companies a comprehensive spectrum of professional services tailored to meet individual needs. These include basic services for various lending and deposit products, as well as the comprehensive domestic and foreign payment transactions service (PCM = payments and cash management). In addition, we offer sophisticated specialised services such as interest rate and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients
In the Institutional Clients division HSBC Trinkaus offers its institutional clients, namely fund-gathering institutions with major investment needs such as insurance companies, pension and investment funds and also banks, the full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients, e.g. to guarantee the value of large investment portfolios.

Global Markets
The Global Markets division deals with the transactions in securities, financial instruments, foreign exchange and derivatives that HSBC Trinkaus undertakes on its own account, and in its own name. Through its trading activities, therefore, the Bank itself participates in the market, acting as a market-maker whilst seeking to generate additional profit by pursuing clearly defined trading goals.

Central Divisions / Consolidation
In addition to overhead costs that cannot be unambiguously allocated to specific business divisions, Central Divisions / Consolidation includes profits from selected strategic asset and liability items that cannot be directly attributed to one particular division, as well as the results of asset liability management. As in the previous year, this segment also includes the earnings contributions from securities processing for financial services providers.

Segment income is broken down into net interest income, net fee income and net trading income. The difference between the standardised risk-related costs in the operating segments (credit-rating-related add-ons to drawings and limits not utilised) and the risk costs reported in the income statement is reported under Consolidation / Reconciliation. Wherever possible, administrative expenses are charged to the segments if possible according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

Segment reporting by business division for 2009 and 2008 is as follows:

€m		Private Banking	Corporate Banking	Institutional Clients	Global Markets	Central Divisions/ Consolidatin	Economic Group result	Consolidation/ Reconciliation	Total
Net interest income	2009	14.4	44.8	1.9	10.6	71.6	143.3	0.0	143.3
	2008	13.6	43.6	4.2	10.3	67.8	139.5	0.0	139.5
Net loan impairment and other credit risk provisions	2009	1.8	8.7	1.3	0.2	0.7	12.7	9.7	22.4
	2008	1.3	6.7	0.8	0.3	1.8	10.9	−6.4	4.5
Net interest income after net loan impairment and other credit risk provisions	2009	12.6	36.1	0.6	10.4	70.9	130.6	−9.7	120.9
	2008	12.3	36.9	3.4	10.0	66.0	128.6	6.4	135.0
Share of profit in associates	2009	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
	2008	0.0	0.0	0.0	0.0	0.5	0.5	0.0	0.5
Net fee income	2009	83.1	92.4	146.1	2.5	22.1	346.2	0.0	346.2
	2008	96.7	91.4	145.5	4.6	9.4	347.6	0.0	347.6
Net trading income	2009	0.0	−0.2	11.0	105.4	1.7	117.9	0.0	117.9
	2008	0.0	0.1	3.5	112.9	−18.3	98.2	0.0	98.2
Income after loan impairment and other credit risk provisions	2009	95.7	128.3	157.7	118.3	95.3	595.3	−9.7	585.6
	2008	109.0	128.4	152.4	127.5	57.6	574.9	6.4	581.3
Administrative expenses	2009	64.4	74.3	90.6	52.6	118.9	400.8	0.0	400.8
	2008	67.9	76.7	91.0	55.5	93.1	384.2	0.0	384.2
of which depreciation and amortisation	2009	1.5	1.1	0.6	0.6	21.7	25.5	0.0	25.5
	2008	1.4	1.0	0.9	0.6	13.6	17.5	0.0	17.5
Other operating income/ expenses	2009	−2.2	0.0	0.0	0.0	13.8	11.6	0.0	11.6
	2008	0.0	0.0	0.0	0.0	3.5	3.5	0.0	3.5
Operating profit	**2009**	**29.1**	**54.0**	**67.1**	**65.7**	**−9.8**	**206.1**	**−9.7**	**196.4**
	2008	**41.1**	**51.7**	**61.4**	**72.0**	**−32.0**	**194.2**	**6.4**	**200.6**
Income from financial assets	2009	0.0	0.0	0.0	0.0	−24.0	−24.0	0.0	−24.0
	2008	0.0	0.0	0.0	0.0	−50.0	−50.0	0.0	−50.0
Income from derivatives in the bank book	2009	0.0	0.0	0.0	0.0	5.1	5.1	0.0	5.1
	2008	0.0	0.0	0.0	0.0	−11.1	−11.1	0.0	−11.1
Other net income	2009	0.0	0.0	0.0	0.0	−13.8	−13.8	0.0	−13.8
	2008	0.0	0.0	0.0	0.0	−1.3	−1.3	0.0	−1.3
Profit before taxes	**2009**	**29.1**	**54.0**	**67.1**	**65.7**	**−42.5**	**173.4**	**−9.7**	**163.7**
	2008	**41.1**	**51.7**	**61.4**	**72.0**	**−94.4**	**131.8**	**6.4**	**138.2**
Taxation	2009	9.1	17.3	21.5	21.0	−14.4	54.5	0.0	54.5
	2008	12.8	16.5	19.6	23.0	−25.3	46.6	2.0	48.6
Net profit for the year	**2009**	**20.0**	**36.7**	**45.6**	**44.7**	**−28.1**	**118.9**	**−9.7**	**109.2**
	2008	**28.3**	**35.2**	**41.8**	**49.0**	**−69.1**	**85.2**	**4.4**	**89.6**
% change on previous year		−29.3	4.3	9.1	−8.8	−59.3	39.6	> 100.0	21.9

Despite the severe financial and economic crisis worldwide, all of the Bank's four core segments succeeded in generating high contributions to operating profit, thus documenting the strategic balance of HSBC Trinkaus' business activities and the strength of its client-based business model, which is supported by client-oriented trading operations. Diversification effects are reflected in the bank's ability to offset a fall in profits brought about by market fluctuations in individual areas by improved results in other segments, or through new or additional business potential. The negative consequences of the financial and economic crisis impacted in particular on the banks' income from financial assets as well as on other net income, which are managed in the corporate centres. Nevertheless, the burden came in under that of the previous year and could be largely offset by profitable investment of economic capital.

The effects of the economic crisis required a significant increase in net loan impairment and other credit risk provisions in the second half of 2008. The difference to the standard risk costs from the bank's credit model used in the five segments had the effect of reducing income within the scope of the reconciliation to group net loan impairment and other credit risk provisions as a whole, compared with a positive figure the year before.

The Institutional Clients segment was particularly successful, with the highest contribution to results and recording the highest percentage increase in results of all the bank's four core segments. High net fee income and net trading income generated by the fixed income business more than compensated for falling revenues in the asset management and equities business. The fixed-income business benefited from the numerous new issues that were managed by the HSBC Group as well as by the greater diversity of products brought about by the integration in HSBC Group.

The Corporate Banking segment improved on last year's results, especially net fee income from the origination and placement of fixed-income securities. Net interest income was also increased further. Despite the growth in volume of current account balances of corporate clients over the year, interest income in the deposit-taking business was down due to lower margins as a consequence of the ECB's rate-cutting operations. However, this was compensated by higher margins generated by better interest income in the lending business.

In contrast, the cautious stance adopted by many investors in the adverse market conditions meant that the Private Banking segment could only partially absorb the sharp fall in income earned in the securities business through the increase in interest income from the lending business, largely due to higher margins.

Global Markets failed to repeat the exceptionally good result attained in the previous year. Further improvement in the income generated by Treasury activities and increase in equity trading did not suffice to offset the lower income from equity derivatives and foreign exchange trading.

Thanks to strict cost discipline, the Bank avoided an increase in administrative expenses in the four main segments. The more than proportionate rise in costs in the corporate centres is largely explained by the considerable increase in payments to the deposit guarantee fund and the Pension Security Association.

		Private Bank-ing:	Corpo-rate Bank-ing	Institu-tional Clients	Global Mar-kets	Central Divi-sions/ Consoli-dation	Totall	Adjust-ments	Values as at balance sheet date
Cost:income ratio in %	2009	67.6	54.2	57.0	44.4	0.0	68.3	0.0	68.3
	2008	61.6	56.8	59.4	43.4	0.0	72.9	0.0	72.9
Assets* in €m	2009	613.0	2,018.0	2,083.5	8,059.3	7,988.7	20,762.5	–2,033.9	18,728.6
	2008	786.0	2,616.0	1,196.4	5,576.5	10,847.6	21,022.5	1,183.2	22,205.7
Liabilities* in €m	2009	3,410.0	4,256.0	1,657.3	2,949.4	7,394.4	19,667.1	–2,700.7	16,966.4
	2008	4,002.0	3,406.0	1,642.4	2,328.8	8,624.6	20,003.8	461.0	20,464.8
Items for mandatory inclu-sion* in €m	2009	501.4	2,850.8	740.5	693.2	3,344.3	8,130.2	–280.2	7,850.0
	2008	507.5	2,911.2	609.9	599.8	4,195.2	8,823.6	–235.6	8,588.0
Attributable shareholders' equity* in €m	2009	140.1	328.1	159.2	155.5	167.1	950.0	112.5	1,062.5
	2008	135.6	327.9	143.8	143.0	174.4	924.7	30.3	955.0
Employees	2009	229	205	223	91	1,532	2,280		2,280
	2008	224	211	220	96	1,487	2,238		2,238
Return on equity before taxes (%)	2009	20.8	16.5	42.1	42.3		17.1		
	2008	30.3	15.8	42.7	50.4		15.2		

* Annual average

Assets, liabilities and items for mandatory inclusion are based on the average values of the Bank's management information system. The differences with respect to the values on the reporting date as at year-end are shown in the adjustments column.

The cost/income ratio is a measure of the divisions' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment and other credit risk provisions. This ratio has improved year-on-year in Institutional Clients and Corporate Banking. Global Markets and Private Banking reported a slight or significant deterioration respectively in their cost/income ratios, as their costs fell to a lesser extent than their income in percentage terms.

The capital resources of the business segments are made up of a base amount, which is identical for each segment, plus a variable portion calculated according to the amount of mandatory risk items in a given segment.

The assignment of assets, liabilities, risk assets and balance sheet equity follows the assignment of customers to each segment according to the management information system.

The decrease in loans and advances to customers in the Private Banking and Corporate Banking segments was accompanied by a reduction in their items for mandatory inclusion, while the base amounts were increased. In the Institutional Clients and Global Markets segments, loans and advances to customers together with the items for mandatory inclusion and capital requirements developed in parallel.

In line with the development of operating profit, the return on equity in the Corporate Banking segment improved further, whilst falling in Private Banking and Global Markets. The Institutional Clients segment succeeded in almost replicating its high return on equity of the previous year.

The results of the various companies' activities, which are classified geographically, are illustrated below. Segment allocation is determined by the registered office of the respective Group company:

€m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2009	135.4	26.4	1.9	163.7
	2008	110.6	26.2	1.4	138.2

Long-term segment assets amounted to € 256.2 million (2008: € 291.8 million) during the year under report, with Germany accounting for € 247.8 million (2008: € 298.8 million) thereof and the Luxembourg region for € 8.4 million (2008: € 2.0 million)

55 ▸ Measurement Classes

The following table provides an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.2009 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held-for-trading	Available for sale	
Cash reserve		177.0			177.0
Loans and advances to banks	2,429.4				2,429.4
Loans and advances to customers *	2,644.6				2,644.6
Trading Assets			10,005.7		10,005.7
Financial assets		53.1		3,073.0	3,126.1
Other financial instruments	14.9	2.3			17.2
Total financial instruments	**5,088.9**	**232.4**	**10,005.7**	**3,073.0**	**18,400.0**
Other assets not included under IAS 39					328.6
Total assets					**18,728.6**

Liabilities as at 31.12.2009 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,697.6		2,697.6
Customer accounts**	9,062.1		9,062.1
Certificated liabilities	10.0		10.0
Trading liabilities		5,196.7	5,196.7
Subordinated capital	384.4		384.4
Other financial instruments	55.0		55.0
Total financial instruments	**12,209.1**	**5,196.7**	**17,405.8**
Other liabilities not included under IAS 39			260.2
Shareholders' equity			1,062.5
Minority interests			0.1
Total assets			**18,728.6**

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customers' deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.08 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		139.5			139.5
Loans and advances to banks*	2,979.7				2,979.7
Loans and advances to customers *	4,061.2				4,061.2
Trading Assets			12,482.6		12,482.6
Financial assets		61.6		2,057.2	2,118.8
Other financial instruments	38.2	1.7			39.9
Total financial instruments	**7,079.1**	**202.8**	**12,482.6**	**2,057.2**	**21,821.7**
Other assets not included under IAS 39					384.0
Total assets					**22,205.7**

Liabilities as at 31.12.08 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,709.1		2,709.1
Customer accounts**	11,592.8		11,592.8
Certificated liabilities	10.0		10.0
Trading liabilities		6,152.9	6,152.9
Subordinated capital	458.7		458.7
Other financial instruments	50.5		50.5
Total financial instruments	**14,821.1**	**6,152.9**	**20,974.0**
Other liabilities not included under IAS 39			260.2
Shareholders' equity			955.0
Minority interests			16.5
Total assets			**22,205.7**

* Net loan impairment provision Is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customers' deposits are used in part internally to refinance our trading divisions.

56 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties. Details of the valuation can be found in Note 5.

Assets and liabilities held-for-trading as well as financial assets are reported in the balance sheet at market value, i.e. book value equates to market value. Cash reserves, interbank funds, loans and advances to customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant. For other items in the balance sheet, the following differences are noted between the fair value and reported book value:

€m	31.12.2009		31.12.2008	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	17.2	17.2	39.9	39.9

€m	31.12.2009		31.12.2008	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,697.6	2,697.6	2,709.1	2,708.5
Customer accounts (from the measurement of long-term promissory note loans borrowed)	9,062.1	9,094.8	11,592.8	11,579.6
Certificated liabilities	10.0	9.7	10.0	9.8
Subordinated capital	384.4	399.4	458.7	475.4
Other financial instruments	55.0	55.0	50.5	50.5

The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships or unlisted public limited companies for which there is no active market. Measurement is therefore at cost.

€m	31.12.2009	31.12.2008
	Book value	Book value
Partnerships	17.0	26.9
Holdings in unlisted public limited companies	36.1	34.7
Total	**53.1**	**61.6**

During the year under report, no partnerships, for which there is no active market, were disposed of (2008: € 0.1 million); the Bank has no intentions at present to dispose of partnerships.

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

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2009 €m		observed parameters	unobservable parameters		
Trading assets	1,551.1	8,416.7	37.9	0.0	10,005.7
of which derivatives in hedging relationships	0.0	0.2	0.0	0.0	0.2
Financial assets	627.1	2,438.5	7.4	53.1	3,126.1
Trading liabilities	614.3	4,499.7	82.8	0.0	5,196.7
of which derivatives in hedging relationships	0.0	3.2	0.0	0.0	3.2

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2008 €m		observed parameters	unobservable parameters		
Trading assets	1,490.1	10,992.3	0.2	0.0	12,482.6
Financial assets	470.2	1,584.7	2.3	61.6	2,118.8
Trading liabilities	697.1	5,429.6	26.2	0.0	6,152.9

For some financial instruments, quoted prices could no longer be used as fair values (so-called level 1) during the year under report. They were measured instead at fair value using our own internal measurement models. These models allow all parameters included on the market to be observed (so-called level 2).

Equity instruments comprise for the most part plain vanilla options or single barrier options. The former are measures by means of a Black-Scholes approach (binomial process), while the latter are evaluated using an approximate valuation approach. The following observable market parameters – underlying spot, underlying volatility, underlying dividends and interest rate – are included in these models.

Level 2 transactions in interest rate instruments are generally valued using the discounted cash flow method or the Black-Scholes method. The parameters required here (swap rates and volatility) can also be observed on the market.

Transfers from level 1 into level 2 are attributable to the fact that quoted prices no longer represent a measure of value due to the low trading volume, and theoretical models provide a more reliable fair value here. These transfers amounted to € 512.3 million in the year under report.

Conversely, financial instruments in the amount of € 61.1 million were transferred from level 2 to level 1. The previously illiquid markets recovered almost fully, so that the quoted prices could be used as reliable fair values.

Additionally, the fair value of some financial instruments was calculated using valuation models, where at least one of the parameters used cannot be observed on the market (so-called level 3). These instruments include among other things equity certificates on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured in an analytical Black-Scholes approach. As a rule, the correlation between the individual underlyings or between the underlying and the foreign currency represents the parameters that are not observed on the market.

In the year under report, the volume of level 3 financial instruments amounted to € 128.1 million (2008: € 28.7 million). The portfolio of level 3 financial instruments developed as follows in the year under report:

€m	Trading Assets	Financial assets**	Trading liabilities*	Total:
01.01.2009	0.2	2.3	26.2	**28.7**
Unrealised profits/losses	2.2	−2.1	6.3	**6.4**
of which:				
Income statement	2.2	− 2.1	6.3	**6.4**
valuation reserve	0.0	0.0	0.0	**0.0**
Realised profits/losses	−0.8	0.0	−6.6	−7.4
of which:				
maturity	−0.8	0.0	−6.6	−7.4
sale	0.0	0.0	0.0	**0.0**
New business	**0.0**	0.0	**0.0**	0.0
of which:				
purchases	0.0	0.0	0.0	**0.0**
issuance	0.0	0.0	0.0	**0.0**
Transfer to level 3	36.3	7.2	56.9	**100.4**
Transfer out of level 3	0.0	0.0	0.0	**0.0**
31.12.2009	37.9	7.4	82.8	128.1

* Realised and unrealised profits and losses on trading assets and liabilities are recorded in Net Trading Income in the Income Statement.
** Level 3 financial assets are imbedded derivatives, whose measurement results are recorded in Net Trading Income.

No level 3 financial instruments were transferred to other fair value levels in the year under report. On the other hand, financial instruments in the amount of € 100.4 million were transferred from other fair value levels to level 3 (2008: € 28.7 million). The year-on-year increase is largely attributable to our policy of classifying structured products entirely as level 3, while only embedded derivatives were classified as such in the previous year.

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to € 1.9 million (2008: € 0.2 million). A 25 % change in the unobservable parameters would lead to a € 0.6 million (2008: € 1.5 million) change in the market value.

57 ▸ Day-1 Profit or Loss

Financial assets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

The day-1 profit or loss developed as follows during the year under report:

€m	2009	2008
As at 1.1.	**3.3**	**3.5**
New business	0.4	2.1
Day-1 profit or loss recognised in the income statement	–1.9	–2.3
of which positions closed out	–0.5	–1.3
of which matured transactions	–1.4	–1.0
of which observable market parameters	0.0	0.0
As at 31.12.	**1.8**	**3.3**

58 ▸ Holdings in Foreign Currency

As at 31 December 2009, assets denominated in a foreign currency were valued at € 1,097.2 million (2008: € 2,635.9 million) and the corresponding liabilities at € 1,797.1 million (2008: € 3,666.2 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

59 ▸ Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with Section 36 of the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e.V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of their credit rating and any netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these derivatives.

Breakdown of the Derivatives Business by Nominal Amount

€m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2009	Total 2008
OTC products	FRAs	1,300	0	0	1,300	790
	Interest rate swaps	5,951	12,854	8,918	27,723	31,374
	Interest rate options	1,568	2,834	2,851	7,253	11,208
	Forward transactions	1,191	0	0	1,191	0
Exchange-listed products	Interest rate futures	366	220	0	586	2,394
	Interest rate options	37	0	0	37	382
Interest rate transactions		10,413	15,908	11,769	38,090	46,148
OTC products	Foreign exchange forwards	22,882	1,044	2	23,928	27,451
	Cross currency swaps	528	115	12	655	397
	Foreign exchange options	2,511	243	0	2,754	5,437
Foreign exchange-based transactions*		25,921	1,402	14	27,337	33,285
OTC products	Forward transactions	280	2	0	282	0
	Equity/index options	51	184	43	278	752
	Equity swaps	10	53	53	116	0
Exchange-listed products	Equity/index futures	502	0	0	502	653
	Equity/index options	4,329	1,355	0	4,841	7,109
Equity/index-based transactions		4,050	1,594	96	6,020	8,514
Total financial derivatives		40,663	18,904	11,879	71,446	87,947

* including gold transactions

Breakdown of the Derivatives Business by Market Value

€m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2009	Total 2008	Total 2009	Total 2008
OTC products	FRAs	0	0	0	0	2	0	2
	Interest rate swaps	86	324	451	861	762	1,111	921
	Interest rate options	3	17	54	74	120	103	152
	Forward transactions	7	0	0	7	0	8	0
Interest rate transactions		96	341	505	942	884	1,223	1,075
OTC products	Foreign exchange forwards	310	30	0	340	1,064	325	1,075
	Cross currency swaps	9	6	0	15	21	10	28
	Foreign exchange options	34	9	0	43	146	42	144
Foreign exchange-based transactions*		353	45	0	398	1,231	376	1,247
OTC products	Forward transactions	137	0	0	137	0	204	0
	Equity/index options	14	47	0	61	108	47	207
	Equity swaps	0	0	0	0	0	15	0
Equity/index-based transactions		151	47	0	198	108	266	207
Total financial derivatives		600	433	505	1,538	2,223	1,865	2,529

* including gold transactions

Hedging Instruments

HSBC Trinkaus uses specific derivatives (usually interest rate swaps) to hedge against market interest rate risk on financial assets (so-called fair value hedged; cf. Note 6). This hedging relationship resulted in positive market values of € 0.2 million as at 31 December 2009 (2008: € 0.0 million) as well as negative market values of € 3.2 million (2008: € 0.0 million).

The hedge result is specified in more detail in the following overview:

Profit and loss in €m	2009	2008
From hedging instruments	–0.7	0.0
From underlying transactions	0.6	0.0

60 ▸ Contingent Liabilities and Other Obligations

in €m	31.12.2009	31.12.2008
Contingent liabilities on guarantees and indemnity agreements	1,569.2	1,747.5
Irrevocable loan commitments	3,290.2	3,489.2
Total	4,859.4	5,236.7

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of € 3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of € 1.0 million (2008: € 1.6 million) is still outstanding. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are also contingently liable pro rata for fulfilment of the additional funding obligations of other partners belonging to the Association of German Banks (Bundesverband deutscher Banken e. V.). Contingent liabilities also include € 1.3 million for early retirement schemes.

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 90.3 million (2008:€ 61.4 million) as at the balance sheet date.

in €m	31.12.2009	31.12.2008
Up to 1 year	27.7	24.3
Over 1 year up to 5 years	35.7	33.4
Over 5 years	26.9	3.7
Total commitments arising from leasing and rental contracts	90.3	61.4

The bank outsourced to external third parties the operation of two data-processing centres, the information centre for card payments and the establishment and operation of an account information centre in accordance with section 24 c German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

61 Assets Pledged as Collateral

Securities with a nominal value of € 999.8 million (2008: € 1,066.3 million) were deposited as collateral for transactions on Eurex and for securities lending transactions (cf. Note 31).

Debt instruments with a nominal value of € 4,879.1 million (2008: € 4,155.5 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 Trust Activities

Trust activities may not be shown on a bank's balance sheet. As an indication of the extent of our potential liability, the following table shows the value of off-balance-sheet trust activities:

in €m	31.12.2009	31.12.2008
Trust assets	**361.1**	**318.8**
Loans and advances to banks	158.5	125.7
Loans and advances to customers	51.8	76.6
Investments	150.8	116.5
Trust liabilities	**361.1**	**318.8**
Deposits by banks	3.4	2.5
Customer accounts	357.7	316.3

63 ▸ Participating Interests

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

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2009 € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaftfür Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	8,180 *
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	111,902	18,775
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,515	1,066
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	17,500	2,119 *
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,954	–28
HSBC Transaction Services GmbH***	Düsseldorf	100.0	13,427	–2,164 *
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	194 *
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	15,527 *
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,122	443
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	–4 *
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	290	42
HSBC Global Asset Management (Switzerland) AG****	Zürich	50.0	684	10
Companies with special mandates				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	–5,494 *
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	–316 *
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	31	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	59	4
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	19	–59
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	43	11
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,914*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,627	1,588
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	–113*
Trinkaus Canada 1 GP Ltd.*****	Toronto	100.0	5	–3

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2009 € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,288	1,127
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,490	568
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	3,077	2,310
Other companies				
HSBC Trinkaus Consult GmbH*****	Düsseldorf	100.0	5,171	–841
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	31	1
SINO AG ****	Düsseldorf	26.6	6,920	2,709

* Net income excluding profit/loss transfer
** Equities issued by private companies
*** Renamed, formerly International Transaction Services GmbH
**** Consolidated at equity
***** Figures as at 31.12.2008

64 Releasing Subsidiaries from the Disclosure Requirements of the German Commercial Code (Handelsgesetzbuch – HGB)

The following subsidiaries intend to make use of the exemption afforded by Section 264 (3) of the German Commercial Code (HGB) and will not pubish their financial statements for the year 2008:

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
- HSBC Transaction Services GmbH (vormals ITS), Düsseldorf
- DPT Deutscher Pension Trust GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- HSBC Trinkaus Private Wealth GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf

65 ▸ Letter of Comfort

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

Moreover, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general partners or managing partners of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies and Trinkaus private equity companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided they are natural persons.

66 ▸ Staff

Annual average	2009	2008
Staff employed abroad	201	180
Staff employed in Germany	2,052	2,013
Total (including trainees)	**2,253**	**2,193**
of which:		
female members of staff	1,010	981
male members of staff	1,243	1,212

67 ▸ Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG AG Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expense:

in €m	2009	2008
Audits	0.7	0.9
Other audit or valuation services	0.3	0.2
Tax advisory services	0.2	0.0
Other services	0.1	0.2
Other	**1.3**	**1.3**

68 Business Relationships with Companies and Persons Defined as Related Parties

In accordance with our "best of both worlds" strategy, we foster intensive business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall, the consolidated income statement includes € 120.5 million (2008: € 297.3 million) in income and € 26.4 million (2008: € 54.3 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. The decline in income and expenditure is attributable in particular to lower interest income and expenses. In the 2009 financial year, interest income from other HSBC companies amounted to € 53.7 million (2008: € 233.6 million), while interest expense stood at € 15.1 million (2008: € 42.7 million).

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

	Affiliated companies		Associated companies	
in €m	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Loans and advances to banks	939.3	2,049.6	0.0	0.0
Loans and advances to customers	0.2	0.5	35.4	30.6
Total	**939.5**	**2,050.1**	**35.4**	**30.6**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Deposits by banks	1,783.4	1,638.3	0.0	0.0
Customer accounts	10.3	2.1	10.0	10.6
Total	**1,793.7**	**1,640.4**	**10.0**	**10.6**

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

	Securities		Derivatives	
in €m	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Trading assets	435.2	2,203.7	681.5	1,204.7
Trading liabilities	0.0	0.0	962.6	1,213.1

Compensation of the Executive Bodies

The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Structure and Management). The following overview shows the remuneration components of the members of the Management Board and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 June 2007, information is disclosed pursuant to section 314 sentence 1 No. 6 (a) sentence 5 of the German Commercial Code (Handelsgesetzbuch – HGB).

At € 2,157.3 thousand, the fixed remuneration of all members of the Management Board was virtually unchanged compared with 2008 (€ 2,157.3 thousand). The variable share of the remuneration is € 5,715 thousand (2008: € 5,572.0 thousand). In addition, the Management Board will receive share options as a so-called long-term incentive, in accordance with a disbursement structure specified in greater detail below. This element of remuneration equates to a fair value of € 4,485.0 thousand for 2009 (2008: € 4,299.0 thousand).

Other compensation in the amount of € 85.6 thousand (2008: € 85.7 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

As in previous years, the performance-related components for 2009 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share-based compensation for 2007 is paid in three equal amounts in the next three financial years, from 2009 through 2011, in each case after the announcement of the HSGB Group's result for the year. This provision was modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. Of the shares allocated in 2010 as a variable component for the year 2009, the payments will be transferred in two equal instalments in the second and third years (in other words in 2012 and 2013) after the commitment.

Provisions totalling € 11.1 million (2008: € 9.8 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 8 June 2010, the compensation of the Supervisory Board will be € 1,122,838.37 (2008: € 1,160,250.00). The members of the Advisory Board received remuneration totalling € 353,100.00 (2008: € 331,300.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 301,791.38 (2008: € 396,991.38). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled € 4.4 million (2008: € 4.5 million). Provisions totalling € 34.5 million (2008: € 41.5 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 69.

Advances and loans were not granted to members of the Supervisory Board and the Management Board (2008: loans in the amount of € 44,487.66 were granted to members of the Management Board). Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

69 Share-based Payments

Breakdown of the Share Option Scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2009	Number of option rights 31.12.2008
SAYE 2004 (5Y)	01.08.2004	3.21	8.50	–	25,358
SAYE 2005 (5Y)	01.08.2005	3.00	8.42	34,175	50,400
SAYE 2006 (3Y/5Y)	01.08.2006	2.60/2.67	9.59	3,502	52,573
SAYE 2007 (3Y/5Y)	01.08.2007	2.90/2.99	9.08	34,797	80,821
SAYE 2008 (1Y3Y/5Y)	01.08.2008	2.49/2.66/2.77	7.55	53,472	281,944
SAYE 2009 (1Y/3Y/5Y)	01.08.2009	1.67/1.59/1.50	3.64	995,110	–
Total				1,121,056	491,096

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on 1 August of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2009 was € 7.15 (1 August 2008: €10.62).

On account of the capital increase conducted by HSBC Holdings plc in April 2009, the exercise prices of all current plans have been adjusted.

Development of the Share Option Scheme

	Type	Number of option rights	Gewichteter Ausübungspreis in €
Balance as at 01.01.2009	SAYE 2004 – 2008	491,096	9.37
Granted in the course of the year	SAYE 2009	995,110	3.64
Exercised in the course of the year	SAYE 2004 (5J) / SAYE 2006 (3J) / SAYE 2008 (1J)	101,330	8.96
Forfeited in the course of the year	SAYE 2005 – 2009	263,820	7.80
Balance as at 31.12.2009	SAYE 2005 – 2009	1,121,056	4.16
of which outstanding option rights		1,116,565	
of which exercisable option rights		4,491	

The staff expenses to be taken into account in the year under report are € 0.8 million (2008: € 0.5 million).

Breakdown of the Share-Participation Scheme

As in the previous year, performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc in 2007. It can be broken down as follows:

in €m	Performance-related remuneration in HSBC shares	
	For financial year 2009	For financial year 2008
Maturing in March 2011	0.0	0.0
Maturing in March 2012	5.7	10.7
Maturing in March 2013	5.7	0.0
Total:	**11.4**	**10.7**

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 2.2 million (2008: € 4.7 million). The corresponding liability for share-based payments amounts to € 10.4 million (2008: € 7.3 million).

70 ▸ Statement on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the "Commission of the German Corporate Governance Code" and made this permanently available to the shareholders, pursuant to section 161 German Stock Corporation Act (AktG).

71 ▸ Offices held by Members of the Management Board

As at 31 December 2009, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz (Chairman)	
Position	Company
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Deputy Member of the Board of Directors	L-Bank, Karlsruhe
Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt am Main
Member of the Board of Directors	KfW-Bankengruppe, Frankfurt am Main

Paul Hagen	
Position	Company
Chairman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Supervisory Board	Falke-Bank AG i. L., Düsseldorf
Member of the Supervisory Board	Düsseldorfer Hypothekenbank AG, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
Member of the Advisory Board	RWE Supply & Trading GmbH, Essen

Dr. Olaf Huth	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxemburg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxemburg

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

72 ▸ Offices Held by Other Members of Staff

As at 31 December 2009, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Member of the Executive Committee)	
Position	Company
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw, Poland

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

Thies Clemenz	
Position	Company
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zürich, Switzerland

Robert Demohn	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Bernd Franke	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Vice-President of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zürich, Switzerland

Gerd Goetz	
Position	Company
Member of the Supervisory Board	SINO AG, Düsseldorf
Member of the Supervisory Board	TICK-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf

Dr. Detlef Irmen	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Wolfgang Jakobs	
Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

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

Dr. Christiane Lindenschmidt	
Position	**Company**
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

Dr. Manfred v. Oettingen	
Position	**Company**
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Hans-Joachim Rosteck	
Position	**Company**
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

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

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

Norbert Stabenow	
Position	**Company**
Deputy Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

73 Offices Held by Supervisory Board Members

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

Dr. Sieghardt Rometsch (Chairman)	
Position	Company
Chairman of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Member of the Supervisory Board	Lanxess AG, Leverkusen
Member of the Board of Directors	HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
Member of the Board of Directors	Management Partner GmbH, Stuttgart

Prof. Dr. h. c. Ludwig Georg Braun	
Position	Company
Chairman of the Supervisory Board	Aesculap AG, Tuttlingen
Chairman of the Supervisory Board	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund
Member of the Supervisory Board	Aesculap Management AG, Tuttlingen
Member of the Supervisory Board	Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
Member of the Supervisory Board	Stihl AG, Waiblingen
Member of the Supervisory Board	Findos Investor Fund I GmbH & Co. KG, Munich
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
President of the Board of Directors	B. Braun Milano S.p.A., Milan, Italy
Vice President of the Board of Directors	B. Braun Holding AG, Lucerne, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Lucerne, Switzerland
Member of the Board of Directors	B. Braun Medical Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia
Member of the Board of Directors	B. Braun Medical International S.L., Barcelona, Spain
Member of the Board of Directors	B. Braun Medical S.A., Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical S.A., Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main
Member of the Board of Directors	Wilhelm Werhahn KG, Neuss

Dr. Hans Michael Gaul	
Position	Company
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	EWE Aktiengesellschaft, Oldenburg
Member of the Supervisory Board	Siemens AG, Munich
Member of the Supervisory Board	VNG – Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

Wolfgang Haupt	
Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	Pfleiderer AG, Neumarkt

Harold Hörauf	
Position	Company
Chairman of the Supervisory Board	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf
Member of the Supervisory Board	BVV Versorgungskasse des Bankgewerbes e. V., Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Pensionsfonds des Bankgewerbes AG, Berlin

Professor Dr. Ulrich Lehner	
Position	Company
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche AG, Stuttgart
Member of the Supervisory Board	Porsche Automobil Holding SE, Stuttgart
Member of the Supervisory Board	Henkel Management AG, Düsseldorf
Member of the Supervisory Board	ThyssenKrupp AG, Düsseldorf
Member of the Shareholders' Committee	Henkel AG & Co. KGaA, Düsseldorf
Member of the Board of Directors	Novartis AG, Basel, Switzerland
Member of the Advisory Board	Dr. August Oetker KG, Bielefeld

Hans-Jörg Vetter	
Position	Company
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Chairman of the Supervisory Board	LBBW Equity Partners Verwaltungs GmbH, München
Chairman of the Supervisory Board	LBBW Equity Partners GmbH & Co. KG, München
Member of the Supervisory Board	Deutscher Sparkassenverlag GmbH, Stuttgart
Member of the Supervisory Board	Stiftung Schloss Neuhardenberg GmbH, Berlin
Deputy Chairman of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main

74 ▸ Publication

The Annual Report will be released for publication on 15 April 2010. The release for publication was approved by the Management Board in its meeting on 12 March 2010.

Düsseldorf, 5 February 2010

Andreas Schmitz | Paul Hagen

Dr. Olaf Huth | Carola Gräfin v. Schmettow

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that it can be recognized with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the Group's business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that the audit provides a sufficiently sound basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB and give, under the terms of these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 12 February 2010

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner Auditor	Signed by Bormann Auditor

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2009	2008	2007	2006	2005*
Total assets	**18,728.6**	**22,205.7**	**21,066.9**	**18,676.4**	**15,948.1**
Assets					
Cash reserve	177.0	139.5	332.3	436.3	798.6
Loans and advances to banks	2,429.4	2,979.7	4,117.0	4,440.1	4,561.9
Loans and advances to customers	2,687.5	4,082.6	4,272.9	3,173.1	2,554.0
Net loan impairment and other credit risk provisions	–42.9	–21.4	–16.2	–17.0	–26.1
Trading assets	10,005.7	12,482.6	10,436.8	9,044.0	6,470.6
Financial assets	3,126.1	2,118.8	1,568.2	1,437.6	1,472.2
Interests in associates	10.6	10.1	15.2	1.5	0.0
Property, plant and equipment	83.3	81.1	196.3	80.4	78.0
Intangible assets	44.1	56.0	12.3	9.3	7.9
Taxation recoverable	13.0	17.5	54.8	2.5	1.8
current	13.0	13.0	54.8	2.5	1.4
deferred	0.0	4.5	0.0	0.0	0.4
Other assets	194.8	259.2	77.3	68.6	29.2
Liabilities					
Deposits by banks	2,697.6	2,709.1	2,532.7	1,495.7	1,424.7
Customer accounts	9,062.1	11,592.8	10,283.2	8,861.4	7,139.6
Certificated liabilities	10.0	10.0	10.0	29.8	34.6
Trading liabilities	5,196.7	6,152.9	6,488.4	6,683.6	5,883.9
Provisions	152.2	117.4	112.4	113.0	103.5
Taxation**	67.7	85.1	106.0	62.0	128.1
current**	61.1	81.5	48.4	25.7	80.7
deferred	6.6	3.6	57.6	36.3	47.4
Other liabilities	95.3	108.2	106.8	105.4	91.0
Subordinated capital	384.4	458.7	458.7	440.6	308.1
Shareholders' equity**	1,062.5	955.0	968.7	884.9	834.6
Minority interests	0.1	16.5	0.0	0.0	0.0
Income statement					
Net interest income	143.3	139.5	110.0	88.6	73.7
Net loan impairment and other credit risk provisions	22.4	4.5	–3.5	–5.2	–9.7
Share of profit in associates	0.6	0.5	6.4	2.5	0.9
Net fee income	346.2	347.6	318.1	281.8	264.4
Net trading income	117.9	98.2	100.1	104.0	74.3
Administrative expenses**	400.8	384.2	334.0	298.6	287.6
Other operating income/expenses	11.6	3.5	1.3	–1.0	0.8
Operating profit	196.4	200.6	205.4	182.5	136.2
Income from financial assets	–24.0	–50.0	1.9	6.5	49.1
Income from derivatives in the bank book	5.1	–11.1	0.0	0.0	0.0
Other net income	–13.8	–1.3	–0.1	0.5	8.2
Profit before taxes	163.7	138.2	207.2	189.5	193.5
Tax expenses**	54.5	48.6	63.2	74.9	76.1
Net profit for the year	109.2	89.6	144.0	114.6	117.4

* Up to and including 2005 inflows and outflows of liquidity from repo and securities lending transactions are reported under loans and advances to banks or customers/deposits by banks.
** The prior-year figures were adjusted retrospectively in 2008 pursuant to IAS 8 as a result of the first-time application of IFRIC 11, Group and Treasury Share Transactions.

ANNEX C

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 C - 2 through page C - 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

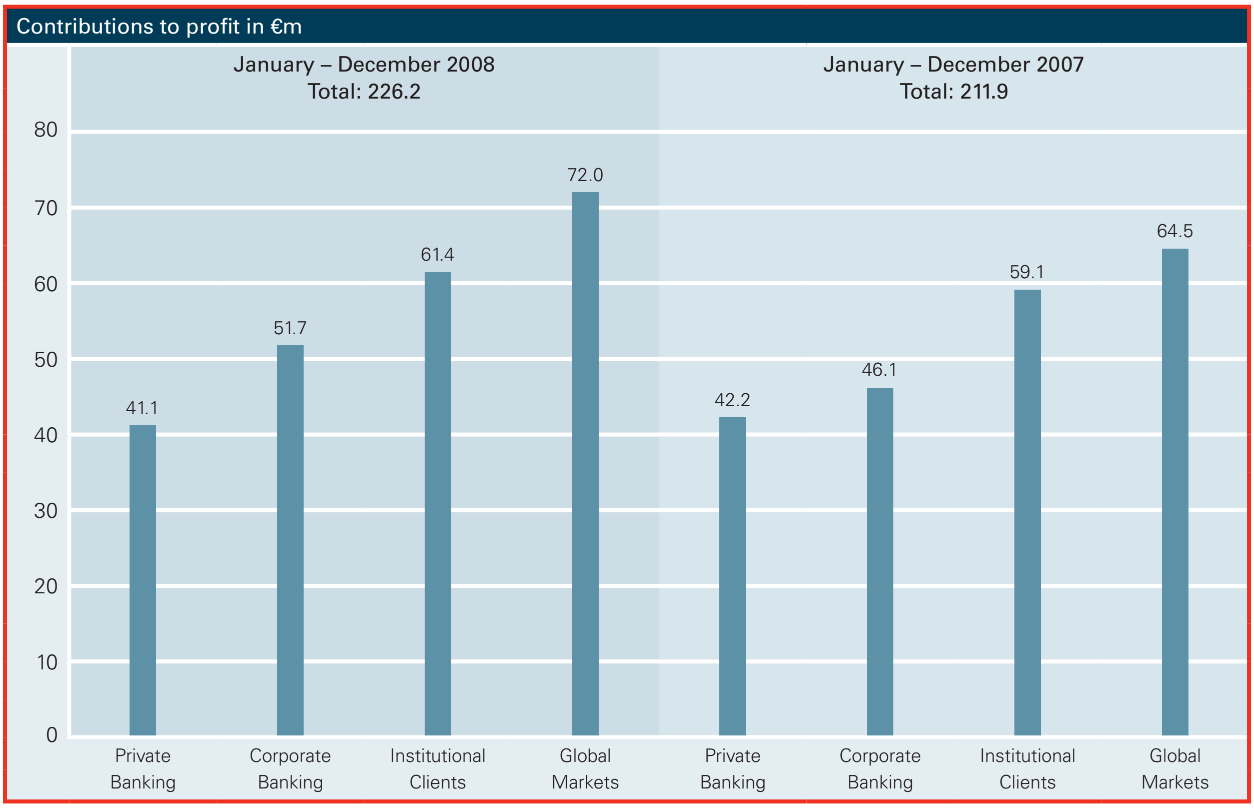
Paul Hagen
Management Board

Operations
Business Process Development
Information Technology
Trading Systems
Securities Services

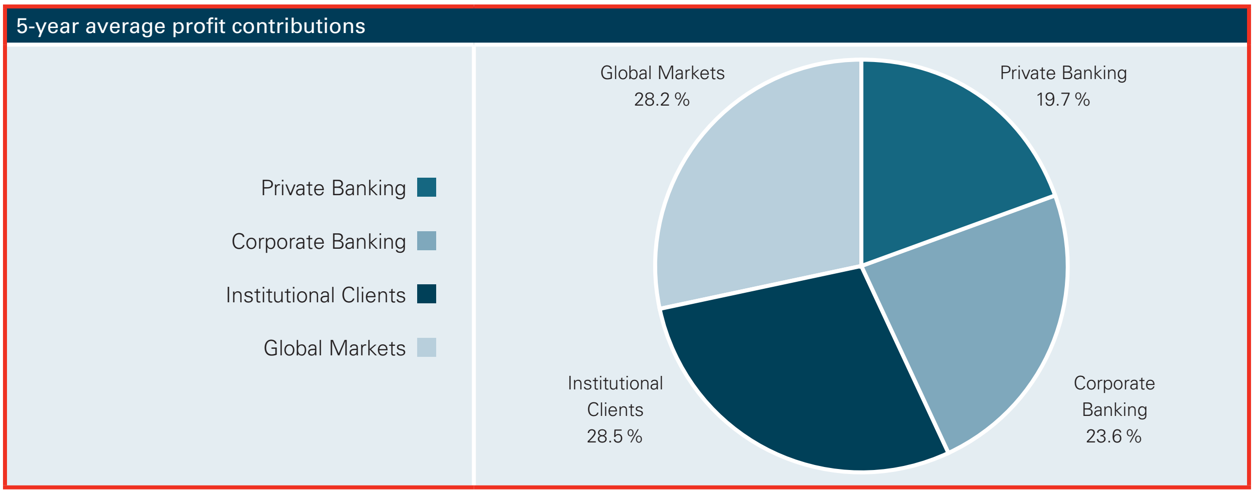
Trevor Gander
Member of the Executive Committee

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	Change 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/ compound-ing	Trans-fers	Change to the scope of consolida-tion	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 instru-ments	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 instru-ments	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 Geschäfts-führungs-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 D

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2010

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2010 is reproduced on the following pages and separately paginated (21 pages, from page D - 2 through page D - 22).

Interim Report as at 31 March 2010

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	01.01. – 31.03.2010	01.01. – 31.03.2009	Change in %
Income statement in €m			
Operating revenues	165.1	156.7	5.4
Net loan impairment and other credit risk provisions	–0.7	0.4	> 100.0
Administrative expenses	112.4	102.3	9.8
Operating profit	53.4	54.0	–1.1
Pre-tax profit	55.0	43.8	25.6
Tax expenses	17.8	15.0	18.7
Net profit for the year	37.2	28.8	29.2
Ratios			
Cost:income ratio of usual business activity in %	67.4	69.8	–
Return on equity before tax in % (projected for the year as a whole)	22.1	17.8	–
Net fee income in % of operating revenues	52.8	58.5	–
No. of employees at the reporting date*	2,287	2,237	2.2
Share information			
Average number of shares in circulation in million	26.1	26.1	0.0
Earnings per share in €	1.43	1.04	37.5
Share price at the reporting date in €	103.5	83.0	24.7
Market capitalisation at the reporting date in €m	2,701	2,166	24.7

	31.03.2010	31.12.2009	Change in %
Balance sheet figures in €m			
Total assets	21,978.0	18,728.6	17.3
Shareholders' equity	1,118.2	1,062.5	5.2
Regulatory ratios*			
Tier 1 in €m	810	817	–0.9
Regulatory capital in €m	1,179	1,160	1.6
Risk-weighted assets in €m	8,138	7,850	3.7
Tier 1 ratio in %	10.0	10.4	–
Regulatory capital ratio in %	14.5	14.8	–

* following confirmation of the balance sheet

Ladies and Gentlemen,

The financial sector is still experiencing one of the worst crises since 1929, although it is likely to have struck bottom. It is presumably thanks to the dauntless intervention by governments and central banks that the repercussions of the financial crisis could be dampened so far and that the overall economic trend in Europe and the USA is now pointing upwards again. It is to be hoped, but cannot yet be reliably ascertained, that this has also created a base for a lasting upswing. For example, economic growth in Germany turned out to be weaker than previously forecast in the first quarter of this year. Added to this is the fear that the positive impact of the economic support programmes implemented so far will weaken.

Despite this still challenging environment, HSBC Trinkaus generated a solid quarterly result in the first three months. There was strong growth in pre-tax profit of 25.6 % from € 43.8 million the previous year to € 55.0 million while operating profit of € 53.4 million was only € 0.6 million or 1.1 % below the good prior-year level of € 54.0 million. This growth is attributable firstly to market movements, since there were significant valuation losses on financial assets in the first quarter of 2009. The positive performance is also based on the bank's sustainable business model with its clear orientation towards our target groups of wealthy private clients, corporate clients and institutional clients supported by risk-aware trading.

Profitability

The earnings components of the operating result can be summarised as follows:

- Net interest income was down 13.8 % to € 31.2 million (Q1 2009: € 36.2 million) as expected. Improved margins in the credit business as well as higher interest income from financial assets were only able to partly offset the decline in deposit margins on account of the lower level of interest rates.

- As regards net loan impairment and other credit risk provisions, there was a net reversal of € 0.7 million, the result of several smaller reversals. This is testimony to HSBC Trinkaus' forward-looking and conservative management.

- Net fee income, at € 87.1 million, was down moderately compared to the previous year (€ 91.7 million) due above all to lower margins in foreign exchange trading. Although transaction volumes remained low in the securities business, the key factor of success in our fee-based business, we were nevertheless able to increase net fee income here slightly. This improvement is essentially the result of transactions with wealthy private clients.

- Net trading income was 75.3 % higher at € 41.2 million after € 23.5 million the previous year. This performance was mainly attributable to the market distortions in the first quarter of 2009, while in the quarter under review net trading income was solid and not based on extraordinary effects. Significant spread widening in trading with interest products led to valuation losses the previous year. On the other hand, the trend observed in previous quarters continued in the quarter under review with lower risk premiums and associated valuation gains.

- The money market business also gave a favourable performance, albeit slightly weaker compared to the previous year's record, thanks to our still excellent liquidity position. We gave a satisfactory performance in trading with equities and equity/index derivatives, in particular with our trading-oriented retail products. There was also growing demand for discount and bonus certificates, which suffered the sharpest falls the previous year. We reported slight valuation losses on derivatives in the bank book for hedging strategic interest rate positions.

- Net other income, at € 3.9 million, was down on the prior-year level of € 8.7 million due largely to non-recurring items in the first quarter of 2009.

- Administrative expenses were up 9.8 % to € 112.4 million (Q1 2009: € 102.3 million). This increase reflected on the one hand a higher headcount as the bank looked to take advantage of growth opportunities, and increased allocated costs on the other. At 67.4 % the cost:income ratio remains within the adequate range for our business model of 65 % to 70 %.

- Income from financial assets came to € 3.2 million after a loss of € 13.8 million the previous year, which was largely due to value corrections in connection with the turmoil on the capital markets.

The asset situation

Total assets were up 17.3 % compared to the end of 2009 at € 22.0 billion. At around € 9.8 billion, customer deposits remain the bank's main source of finance. This is testimony to the clients' clear commitment to the bank, which is reflected not least in our sustained earnings power. HSBC Trinkaus invests a large part of this liquidity in highly liquid ECB eligible bonds or promissory note loans issued by German federal states.

The financial position

HSBC Trinkaus' capital ratio stands at 14.5 % after 14.8 % at the end of the year. Its Tier 1 ratio is 10.0 % and contains no hybrid capital components. At € 1,118.2 million, shareholders' equity was 5.2 % up on the level at the end of 2009 (€ 1,062.5 million). On the one hand, the growth is the result of increased profit for the quarter. On the other, it also includes the effects of the valuation of financial assets (€ 22.1 million) as well as the actuarial profits and losses from pensions and plan assets (€ –3.9 million). The bank's financial position is also still characterised by excellent liquidity. The minimum regulatory requirements were far exceeded with an average of 1.86 for the end-of-month positions.

Forecast

HSBC Trinkaus has come through the crisis safely so far thanks mainly to its conservative risk management and its client-focused strategy. The bank will continue to pursue its successful business strategy.

As a member of the HSBC Group, we offer our clients the continuity, professionalism and individuality of a private bank together with the international service capacity and capital strength of a global financial services provider. This unique combination puts HSBC Trinkaus in a good position to take advantage of market opportunities to generate growth. The bank will continue to aim at expanding its customer base and product offerings. In the Private Banking business, HSBC Trinkaus is in an excellent position to acquire new clients. As regards the Corporate Banking business, the bank will use the advantages of the global HSBC network for small and medium-sized customers to a greater extent to expand its market share. For institutional clients, HSBC Trinkaus offers the breadth and depth of the global trading books for sophisticated transactions.

HSBC Trinkaus is well placed for organic growth. Even given the tightening of the capital requirements, the bank will be able to increase its credit volume without lowering its credit standards. In doing so, HSBC Trinkaus will be guided by the proven principle of growing with its customers, not with its risks.

Düsseldorf, April 2010
The Management Board

Andreas Schmitz Paul Hagen Dr. Olaf Huth Carola Gräfin v. Schmettow

This Interim Report fulfils the requirement of an interim management statement pursuant to Section 37x German Securities Trading Act (WpHG) and the interim reporting requirements as set out in IAS 34.

Consolidated Income Statement

in €m	(Notes)	01.01. – 31.03.2010	01.01. – 31.03.2009	Change in %
Interest income		48.0	70.2	–31.6
Interest expense		16.8	34.0	–50.6
Net interest income	(1)	31.2	36.2	–13.8
Net loan impairment and other credit risk provisions	(2)	–0.7	0.4	> 100.0
Share of profit in associates		0.1	0.2	–50.0
Fee income		142.3	144.9	–1.8
Fee expenses		55.2	53.2	3.8
Net fee income	(3)	87.1	91.7	–5.0
Net trading income	(4)	41.2	23.5	75.3
Administrative expenses	(5)	112.4	102.3	9.8
Income from financial assets		3.2	–13.8	> 100.0
Net other income/expenses	(6)	3.9	8.7	–55.2
Pre-tax profit		**55.0**	**43.8**	**25.6**
Tax expenses		17.8	15.0	18.7
Net profit for the year		**37.2**	**28.8**	**29.2**
Profit/loss attributable to minority shareholders		0.0	1.6	–100.0
Profit/loss attributable to HSBC Trinkaus shareholders		37.2	27.2	36.8

Earnings per share

in €	01.01. – 31.03.2010	01.01. – 31.03.2009	Change in %
Earnings per share	1.43	1.04	37.5
Undiluted earnings per share	1.43	1.04	37.5

As in the corresponding prior-year period, there were no option and conversion rights outstanding for the purchase of shares in the first quarter of 2010. There was therefore no calculable dilution effect.

Consolidated Balance Sheet

Assets in €m	(Notes)	31.03.2010	31.12.2009	Change in %
Cash reserve		157.4	177.0	–11.1
Loans and advances to banks	(8)	5,151.2	2,429.4	> 100.0
Loans and advances to customers	(9)	2,959.2	2,687.5	10.1
Net loan impairment provision	(10)	–42.2	–42.9	1.6
Trading assets	(11)	10,169.5	10,005.7	1.6
Financial assets	(12)	3,217.2	3,126.1	2.9
Interests in associates		10.2	10.6	–3.8
Property, plant and equipment		82.6	83.3	–0.8
Intangible assets		41.7	44.1	–5.4
Taxation recoverable		14.0	13.0	7.7
current		14.0	13.0	7.7
deferred		0.0	0.0	0.0
Other assets		217.2	194.8	11.5
Total assets		**21,978.0**	**18,728.6**	**17.3**

Liabilities in €m	(Notes)	31.03.2010	31.12.2009	Change in %
Deposits by banks	(13)	4,851.4	2,697.6	79.8
Customer accounts	(14)	9,759.6	9,062.1	7.7
Certificated liabilities		10.0	10.0	0.0
Trading liabilities	(15)	5,522.2	5,196.7	6.3
Provisions		121.7	152.2	–20.0
Taxation		86.7	67.7	28.1
current		70.6	61.1	15.6
deferred		16.1	6.6	> 100.0
Other liabilities		123.7	95.3	29.8
Subordinated capital		384.4	384.4	0.0
Shareholders' equity		1,118.2	1,062.5	5.2
Share capital		70.0	70.0	0.0
Capital reserve		215.3	216.9	–0.7
Retained earnings		691.7	654.7	5.6
Consolidated profit available for distribution		–	120.9	–
Profit 01.01.2010 – 31.03.2010 incl. profit brought forward		141.2	–	–
Minority interests		0.1	0.1	0.0
Total equity and liabilities		**21,978.0**	**18,728.6**	**17.3**

Breakdown of consolidated shareholders' equity and subordinated capital

in €m	31.03.2010	31.12.2009
Share capital	70.0	70.0
Capital reserve	215.3	216.9
Retained earnings	691.7	654.7
of which: valuation reserve for financial instruments	130.7	108.6
of which: valuation reserve for actuarial profits and losses	–27.2	–23.3
of which: valuation reserve from currency conversion	–0.3	–0.2
Net profit including profit brought forward	141.2	120.9
Consolidated shareholders' equity	**1,118.2**	**1,062.5**
Subordinated liabilities	284.4	284.4
Participatory capital	100.0	100.0
Consolidated subordinated capital	**384.4**	**384.4**
Total	**1,502.6**	**1,446.9**

Consolidated statement of changes in equity

in €m	2010	2009
Consolidated shareholders' equity as at 01.01.	**1,062.5**	**955.0**
Distribution	0.0	0.0
Net profit	37.2	27.2
Gains/losses not recognised in the income statement (change in valuation reserves)	18.1	–14.9
Share-based compensation settled in the form of equity instruments	6.8	4.3
Transfer of shares to employees in connection with share-based remuneration schemes	–6.4	–3.1
Consolidated shareholders' equity as at 31.03.	**1,118.2**	**968.5**

Reconciliation from net income to comprehensive income

in €m	01.01. – 31.03.2010	01.01. – 31.03.2009
Net profit for the year	37.2	28.8
Gains/losses not recognised in the income statement	18.1	–15.0
of which from financial instruments	22.1	–13.2
of which from actuarial results	–3.9	–1.8
of which from currency conversion	–0.1	0.0
Comprehensive income	**55.3**	**13.8**
Attributable to:		
Minority interests	0.0	1.6
HSBC shareholders	55.3	12.2

Consolidated cash flow statement

in €m	2010	2009
Cash and cash equivalents as at 01.01.	**177.0**	**139.5**
Cash flow from operating activities	–18.3	44.1
Cash flow from investing activities	–1.3	–1.1
Cash flow from financing activities	0.0	–8.0
Cash and cash equivalents as at 31.03.	**157.4**	**174.5**

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 31 March 2010 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. The report takes particular account of the requirements of IAS 34 relating to interim financial reporting. Furthermore, the report takes into consideration the requirement of an interim management statement pursuant to Section 37x German Securities Trading Act (WpHG). No review of the Interim Report was carried out by external auditors.

When drawing up this Interim Report, including the comparable figures for the prior-year periods, we applied the same accounting and valuation methods as in the 2009 consolidated financial statements.

On 12 November 2009, the IASB published the standard IFRS 9, Financial Instruments. The aim of the standard is to completely revise the accounting of financial instruments in a three-part project and thus replace the standard IAS 39 applicable to date. IFRS 9 sets out the new requirements for the classification and measurement of financial assets and will have a substantial influence on HSBC Trinkaus' accounting. The adoption of the standard is mandatory for financial years starting on or after 1 January 2013. Early adoption is permitted for 2009 year-end financial statements. HSBC Trinkaus has not been able to make use of this option as the standard is still awaiting EU endorsement.

All other 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. – 31.03.2010	01.01. – 31.03.2009
Interest income	**48.0**	**70.2**
From loans and advances to banks	6.0	17.2
Money market transactions	5.1	14.9
Other interest-bearing receivables	0.9	2.3
From loans and advances to customers	17.7	31.9
Money market transactions	3.6	7.6
Other interest-bearing receivables	14.1	24.3
From financial assets	24.3	21.1
Interest income	23.9	20.9
Dividend income	0.2	0.0
Income from subsidiaries	0.2	0.2
Interest expense	**16.8**	**34.0**
From deposits by banks	4.0	7.8
Money market transactions	2.7	6.4
Other interest-bearing deposits	1.3	1.4
From customer accounts	8.2	21.1
Money market transactions	2.2	10.2
Other interest-bearing deposits	6.0	10.9
From securitised liabilities	0.1	0.1
From subordinated capital	4.5	5.0
Net interest income	**31.2**	**36.2**

2 Net loan impairment and other credit risk provisions

in €m	01.01. – 31.03.2010	01.01. – 31.03.2009
Additions	0.0	3.1
Reversals	0.7	2.7
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.0
Total	**–0.7**	**0.4**

3 Net fee income

in €m	01.01. – 31.03.2010	01.01. – 31.03.2009
Securities transactions	60.5	59.7
Foreign exchange transactions and derivatives	9.3	15.8
Investment banking	3.9	1.0
Issuing and structuring business	3.7	4.5
Foreign business	3.3	3.2
Lending	2.3	1.4
Payments	1.5	1.5
Other fee-based business	2.6	4.6
Total	**87.1**	**91.7**

4 Net trading income

in €m	01.01. – 31.03.2010	01.01. – 31.03.2009
Bonds and interest rate derivatives	22.9	1.6
Equities and equity/index derivatives	16.0	17.6
Foreign exchange	3.9	3.2
Derivatives in the bank book	–1.6	1.1
Total	**41.2**	**23.5**

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. – 31.03.2010	01.01. – 31.03.2009
Staff expenses	68.2	62.0
Wages and salaries	59.3	53.9
Social security costs	6.3	5.8
Expenses for retirement pensions and other employee benefits	2.6	2.3
Other administrative expenses	38.4	34.6
Depreciation of property, plant and equipment and of intangible assets	5.8	5.7
Total	**112.4**	**102.3**

6 Net other income / expenses

in €m	01.01. – 31.03.2010	01.01. – 31.03.2009
Other operating income	7.4	7.5
Other operating expenses	3.5	1.3
Net other operating income and expenses	**3.9**	**6.2**
Net other non-operating income	0.0	2.5
Net other non-operating expenses	0.0	0.0
Net other non-operating income and expenses	**0.0**	**2.5**
Net other income / expenses	**3.9**	**8.7**

7 Segment reporting

in €m	Private Banking	Corporate Banking	Institut. Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income						
31.03.2010	3.0	12.5	0.6	0.7	14.4	31.2
31.03.2009	3.5	11.1	0.4	4.1	17.1	36.2
Net loan impairment and other credit risk provisions*						
31.03.2010	0.3	2.6	0.4	0.0	– 4.0	– 0.7
31.03.2009	0.4	1.9	0.5	0.1	– 2.5	0.4
Share of profit in associates						
31.03.2010	0.0	0.0	0.0	0.0	0.1	0.1
31.03.2009	0.0	0.0	0.0	0.0	0.2	0.2
Net fee income						
31.03.2010	21.6	24.2	34.0	2.0	5.3	87.1
31.03.2009	19.8	26.4	38.6	– 0.1	7.0	91.7
Operative trading profit						
31.03.2010	0.0	– 0.1	3.6	23.9	15.4	42.8
31.03.2009	0.0	– 0.1	2.3	33.6	– 13.4	22.4
Administrative expenses						
31.03.2010	17.4	20.6	24.6	13.6	36.2	112.4
31.03.2009	17.2	20.5	23.6	15.0	26.0	102.3
of which depreciation and amortisation						
31.03.2010	0.4	0.3	0.2	0.1	4.8	5.8
31.03.2009	0.5	0.3	0.2	0.2	4.5	5.7
Net other operating income and expenses						
31.03.2010	0.1	0.0	0.0	0.0	3.8	3.9
31.03.2009	0.0	0.0	0.0	0.0	6.2	6.2
Operating profit						
31.03.2010	**7.0**	**13.4**	**13.2**	**13.0**	**6.8**	**53.4**
31.03.2009	**5.7**	**15.0**	**17.2**	**22.5**	**– 6.4**	**54.0**
Income from financial assets						
31.03.2010	0.0	0.0	0.0	0.0	3.2	3.2
31.03.2009	0.0	0.0	0.0	0.0	– 13.8	– 13.8
Income from derivatives in the bank book						
31.03.2010	0.0	0.0	0.0	0.0	– 1.6	– 1.6
31.03.2009	0.0	0.0	0.0	0.0	1.1	1.1
Net other non-operating income and expenses						
31.03.2010	0.0	0.0	0.0	0.0	0.0	0.0
31.03.2009	0.0	0.0	0.0	0.0	2.5	2.5
Pre-tax profit						
31.03.2010	**7.0**	**13.4**	**13.2**	**13.0**	**8.4**	**55.0**
31.03.2009	**5.7**	**15.0**	**17.2**	**22.5**	**– 16.6**	**43.8**
Taxation						
31.03.2010	2.2	4.3	4.2	4.2	2.9	17.8
31.03.2009	1.7	4.8	5.5	7.2	– 4.2	15.0
Net profit for the year						
31.03.2010	**4.8**	**9.1**	**9.0**	**8.8**	**5.5**	**37.2**
31.03.2009	**4.0**	**10.2**	**11.7**	**15.3**	**– 12.4**	**28.8**

* including € –4.1 million consolidation (previous year: € –2.8 million)

The segment reporting shows how the situation on the markets has eased compared to the prior-year quarter which was still characterised by significant spread widening, putting pressure on portfolios held in the bank's Central Divisions. Private Banking was able to improve its result in the more favourable market environment again. Corporate Banking, Institutional Clients and Global Markets were not able to repeat the extremely good results reported the previous year. The easing of the crisis on the financial markets was reflected positively in particular in the evaluation result of capital investments reported under net trading income and in the bank's financial assets held in the Central Divisions.

The Private Banking business was able to increase revenues from securities and asset management transactions significantly owing to many investors no longer exercising restraint. In the Corporate Banking business, declines in revenues in the fee-dominated fixed income and foreign exchange business were almost offset by higher net fee income in investment banking and in the international business as well as by an increase in net interest income in the lending business as a result of higher margins. The Institutional Clients business was only able to offset lower revenues from the generation and placement of bond issues and from foreign exchange transactions in part with higher revenues in the client-oriented trading business. In addition to the good equity and equity derivatives trading revenues, Global Markets was able to generate a very favourable Treasury result, but it did not reach the extraordinarily high prior-year level.

The increase in administrative expenses throughout the bank can be explained in particular by higher accruals for performance-related remuneration as a result of the increase in earnings, regulatory costs and contributions as well as IT costs for improving the bank's future competitive position.

8 Loans and advances to banks

in €m	31.03.2010	31.12.2009
Current accounts	931.1	361.2
Money market transactions	4,082.2	1,923.8
of which overnight money	2,699.3	109.8
of which term deposits	1,382.9	1,814.0
Other loans and advances	137.9	144.4
Total	**5,151.2**	**2,429.4**
of which to domestic banks	3,830.5	1,442.0
of which to foreign banks	1,320.7	987.4

9 Loans and advances to customers

in €m	31.03.2010	31.12.2009
Current accounts	1,232.6	980.9
Money market transactions	671.1	620.9
of which overnight money	90.7	79.3
of which term deposits	580.4	541.6
Loan accounts	1,036.5	1,063.4
Other loans and advances	19.0	22.3
Total	**2,959.2**	**2,687.5**
of which domestic customers	2,047.4	1,933.0
of which foreign customers	911.8	754.5

10 Net loan impairment and other credit risk provisions

in €m	31.03.2010	31.12.2009
Net loan impairment provision	42.2	42.9
Provisions for credit risks	6.8	6.8
Net loan impairment and other credit risk provisions	**49.0**	**49.7**

	Impairments/provisions					
	Individually assessed		Collectively assessed		Total	
in €m	2010	2009	2010	2009	2010	2009
As at 01.01.	**32.7**	**20.2**	**17.0**	**8.0**	**49.7**	**28.2**
Reversals	0.7	2.7	0.0	0.0	0.7	2.7
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	2.1	0.0	1.0	0.0	3.1
Currency translation/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.03.	**32.0**	**19.6**	**17.0**	**9.0**	**49.0**	**28.6**

11 Trading assets

in €m	31.03.2010	31.12.2009
Bonds and other fixed-income securities	4,749.8	4,839.7
Equities and other non-fixed-income securities	744.5	832.4
Tradable receivables	1,712.0	1,917.2
Positive market value of derivatives	2,249.8	1,992.6
Reverse repos	280.1	72.3
Securities lending	0.0	0.3
Security in the derivatives business	427.2	346.6
Derivatives in hedging relationships	2.3	0.2
Derivatives in the bank book	3.9	4.4
Total	**10,169.5**	**10,005.7**

12 Financial assets

in €m	31.03.2010	31.12.2009
Bonds and other fixed-income securities and interest rate derivatives	2,681.0	2,567.4
Equities	23.3	29.8
Investment certificates	127.9	145.3
Promissory note loans	278.9	277.3
Interests in subsidiaries	106.1	106.3
Total	**3,217.2**	**3,126.1**

13 Deposits by banks

in €m	31.03.2010	31.12.2009
Current accounts	1,047.8	563.5
Money market transactions	3,626.3	1,961.3
of which overnight money	2,960.3	11.9
of which term deposits	666.0	1,949.4
Other liabilities	177.3	172.8
Total	**4,851.4**	**2,697.6**
of which domestic banks	2,144.5	741.5
of which foreign banks	2,706.9	1,956.1

14 Customer accounts

in €m	31.03.2010	31.12.2009
Current accounts	6,486.8	5,686.8
Money market transactions	2,946.6	3,040.4
of which overnight money	484.0	346.4
of which term deposits	2,462.6	2,694.0
Savings deposits	40.8	33.6
Other liabilities	285.4	301.3
Total	**9,759.6**	**9,062.1**
of which domestic customers	7,048.4	6,193.1
of which foreign customers	2,711.2	2,869.0

15 Trading liabilities

in €m	31.03.2010	31.12.2009
Negative market value of derivatives	2,709.6	2,452.9
Promissory note loans, bonds, certificates and warrants	2,725.3	2,637.1
Delivery obligations arising from securities sold short	19.6	17.7
Securities lending	22.9	11.4
Security in the derivatives business	38.4	74.4
Derivatives in hedging relationships	6.4	3.2
Total	**5,522.2**	**5,196.7**

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	Market value
Interest rate transactions					
31.03.2010	7,201	16,524	10,192	33,917	1,005
31.12.2009	10,413	15,908	11,769	38,090	942
Foreign exchange transactions					
31.03.2010	27,566	1,420	2	28,988	511
31.12.2009	25,921	1,402	14	27,337	398
Equity and index transactions					
31.03.2010	5,108	1,771	264	7,143	255
31.12.2009	4,050	1,594	96	6,020	198
Total					
31.03.2010	**39,875**	**19,715**	**10,458**	**70,048**	**1,771**
31.12.2009	**40,663**	**18,904**	**11,879**	**71,446**	**1,538**

Deals with both positive and negative market values are taken into account in the determination of the nominal amounts. The stated positive market values of deals represent the replacement values that may arise in the event of the default of all OTC counterparties, regardless of their individual credit rating. The values consist of current interest, foreign currency and equity/index-related deals which include a settlement risk as well as corresponding market price risks. No account is taken of netting agreements. As there is no counterparty risk on exchange-traded products and short positions, the market values of these products are not shown. Owing to the intensive cooperation in the Global Markets segment, we focus in the derivatives business on transactions with other HSBC units.

17 Market risk

in €m	31.03.2010	31.12.2009
Interest rate transactions	2.2	2.9
Equity and index transactions	5.9	4.6
Foreign exchange transactions	0.3	0.2
Overall market risk potential	**7.8**	**4.7**

The market risk potential is calculated for all market risk categories using a standardised internal model. To measure market risks in our trading book under normal market conditions we have been using a value-at-risk approach for many years. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Taking correlations into consideration, the overall market risk potential is lower than the sum of the risks per risk category.

18 Contingent liabilities and other obligations

in €m	31.03.2010	31.12.2009
Contingent liabilities on guarantees and indemnity agreements	1,590.4	1,569.2
Irrevocable loan commitments	3,498.9	3,290.2
Total	**5,089.3**	**4,859.4**

NAMES AND ADDRESSES

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Düsseldorf, **13 July 2010**

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