Annual Report

2005

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	2005	2004	Change in %
Operating performance in €m			
Operating revenues	414.1	353.9	17.0
Risk provisions	- 9.7	1.6	-
Total administrative expenses	286.4	249.3	14.9
Operating profit	137.4	103.0	33.4
Net income before tax	194.4	122.2	59.1
Income tax	76.5	43.8	74.7
Net income	117.9	78.4	50.4
Balance sheet in €m			
Balance sheet total	15,951.4	13,323.1	19.7
Equity capital	844.5	787.5	7.2
Key indicators			
Cost:income ratio for ordinary activities before tax in %	60.8	66.8	-
Return on equity after tax in %	30.6	19.5	-
Ratio of fees and commissions to operating revenues in %	63.8	64.0	-
Funds under Management and Administration in Mrd €	62.8	41.8	50.2
Employees	1,527	1,621	- 5.8
Employees including International Transaction Services GmbH	1,711	1,621	5.6
Share information			
Average number of shares in circulation in millions	26.1	26.1	0.0
Dividend per share in €	2.50	2.25	11.1
Earnings per share in €	4.52	3.00	50.7
Share price per 31.12. in €	87.5	80.5	8.7
Market capitalisation in € billion	2.3	2.1	9.5
Key capital ratios according to BIS rules			
Core capital in €m	523	530	- 1.3
Regulatory capital in €m	852	821	3.8
Mandatory risk items in €m	7,178	6,387	12.4
Core capital ratio in %	7.9	9.0	-
Capital ratio in %	11.9	12.9	-

Annual Report 2005
HSBC Trinkaus & Burkhardt KGaA

HSBC Trinkaus & Burkhardt
Bank since 1785

Contents

Ladies and Gentlemen,

2005 was a successful year for HSBC Trinkaus & Burkhardt. We attained important goals and achieved a lot on the way.

HSBC Trinkaus & Burkhardt's operating profit rose by 33.4 % to € 137.4 million. Net profit was up by 59.1 % before tax and by 50.4 % after tax. This is all the more pleasing given that we had already generated a return on equity that was way above the market average in 2003 and 2004 thanks to double-digit growth rates with respect to our operating profit.

The good figures provide evidence of HSBC Trinkaus & Burkhardt's excellent positioning. Our business model, which is geared to the governing principle of "closer proximity to the client, with global flexibility", has proven itself very well. We focus on the expectations and requirements of our clients and place value on the classical virtues of a private bank, such as consistency of client relationships, the quality of our products and our flat hierarchies. Our membership of the HSBC Group, which embodies international presence and capital power like almost no other bank in the world, plays a major role in our international reach. More and more clients are being won over by this combination of local relationship management and access to the resources of Europe's largest bank, HSBC. As a result, we were also able last year to acquire a large number of attractive new clients in our three target client segments which are going to be of growing significance for the Bank's success in the years ahead.

HSBC Trinkaus & Burkhardt's goods results in 2005 are an incentive for us. Despite growing confidence, low economic growth rates, growing national debt and high unemployment continue to weaken Germany as a business location. Many financial institutions are responding to these market conditions by lowering their costs. The German banking market is still fragmented and low-yielding due to surplus capacities in many lines of business. These structural disadvantages are slowing down the growth of the German institutions compared to their international competitors.

It is in exactly this situation that we benefit from our excellent positioning. Taking the appropriate measures, HSBC Trinkaus & Burkhardt will continue to hold an offensive position in the market since we aim to win additional market share. Our goal is to broaden our client base and expand the existing client relationships on a national and international basis. Furthermore, we intend to strengthen the foundation of our business by developing our cross-selling potential, enabling us to become a core bank to all our top-tier clients in the three client segments.

We are well equipped for this. The Private Banking segment is enjoying major success in building up important new client relationships. Our concept of offering individual and professional advice is appreciated by long-standing and new clients alike. We have strongly expanded the offer of high-quality advisory services for our Corporate Clients. In addition, we offer access to the HSBC network for the growing number of internationally-oriented companies, and hence the opportunity to bank in 76 countries. Today, we are also responsible for the dynamically-growing business for German-speaking clients within the HSBC Group which by far exceeds the revenues generated in Germany. Institutional Clients are benefiting from our tailor-made solutions and innovative financial instruments. For example, we have taken on the pioneer role in the market with respect to dynamic profit protection concepts and structured credit transactions. As a result of our consistent investments in forward-looking technologies, we have optimised not only the efficiency of our business processes, but also laid the foundations for developing new lines of business. Our subsidiary International Transaction Services GmbH, which started operations last summer, offers a high-quality securities service for the Bank and other banks.

Our success is based on the competence, determination to perform and motivation of our staff. In order to maintain and promote these factors of success, targeted and wide-ranging investments in our employees' qualifications and skills are planned for 2006 as well. More and more career opportunities are going to be opened up for our employees within the HSBC Group making HSBC Trinkaus & Burkhardt even more attractive as an employee for young talent.

The Managing Partners and HSBC decided last year to propose to the Annual Shareholders' Meeting in May 2006 the conversion of HSBC Trinkaus & Burkhardt KGaA into a German Stock Corporation (Aktiengesellschaft). The Managing Partners will be appointed as members of the future executive board of HSBC Trinkaus & Burkhardt AG. The Partners will therefore guarantee the continuation of the business strategy with its focus on wealthy private clients, corporate clients and institutional clients as well as proprietary trading. By changing the legal form of the Bank, we will reinforce the links between HSBC and HSBC Trinkaus & Burkhardt and open up new forward-looking opportunities for our clients and for our employees against the background of continuing European integration.

We have again set our sights high for the operating business in 2006. In the Private Banking segment we plan to further selectively increase our staff in all regions. We aim to support the Corporate Banking segment by further expanding our corporate finance activities as well as making investments which strengthen the cooperation with other members of the HSBC Group, thus opening up new opportunities for our internationally-operating clients. Our Institutional Clients will be provided with the entire HSBC product range.

Additional investments will lay the foundations for further growth. We also aim to expand our custody activities in the securities services segment and are ready to strengthen our capital investment company business via external growth. The Austrian market will also gain in significance for all client segments.

We would like to thank our clients and shareholders for their trust, our business partners for their support and our employees for their constructive cooperation and commitment.

Yours sincerely,

The Managing Partners

The Executive Bodies

HSBC Trinkaus & Burkhardt KGaA

Düsseldorf

Baden-Baden · Berlin · Frankfurt am Main · Hamburg · Munich · Stuttgart

Managing Partners

Andreas Schmitz,
Speaker

Paul Hagen

Dr. Olaf Huth

Carola Gräfin von Schmettow

Members of the Extended Management Group

Manfred Krause

from left.: Paul Hagen, Andreas Schmitz, Carola Gräfin von Schmettow, Dr. Olaf Huth, 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

Stephen Green, London,
Deputy Chairman,
Group Chief Executive,
HSBC Holdings plc

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

Ulrich Eckhoff*, Düsseldorf,
Bankangestellter

Deniz Erkman*, Krefeld,
Bank employee

Charles-Henri Filippi, Paris,
Président Directeur Général,
HSBC France

Friedrich-Karl Goßmann*, Essen,
Bankangestellter

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

Dr. jur. Otto Graf Lambsdorff, Bonn,
Lawyer

*Employees' Representatives

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

Dr. Christoph Niemann, Meerbusch,
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Dietmar Sauer, Karlsruhe,
Chairman of the Management Board,
Landesbank Baden-Württemberg

Jörn Wölken*, Lohmar,
Bank employee

Shareholders' Committee

Stephen Green, London,
Chairman,
Group Chief Executive,
HSBC Holdings plc

Charles-Henri Filippi, Paris,
Deputy Chairman,
Président Directeur Général,
HSBC France

Stuart Gulliver, London,
Chief Executive CIBM,
Member of the Group Management Board,
HSBC Holdings plc

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

* Employees' Representatives

Advisory Board

Dr. jur. Otto Graf Lambsdorff,
Chairman

Professor Dr. Gerd Assmann,
Director of the Institute for Clinical Chemistry and Laboratory Medicine, Central Laboratory,
University Hospital Münster

Christian Brand,
Chairman of the Management Board,
Landeskreditbank Baden-Württemberg

Baron Wolf von Buchholtz

Albert H. K. Büll,
Managing Partner,
Büll & Dr. Liedtke GmbH

Walter P. J. Droege,
Chairman of the Management Board,
DIC Deutsche Investors' Capital AG

Heinrich-Johann Essing,
Managing Partner,
CHE Grundbesitz und Bauträger GmbH

Dr. Ludwig Faßbender

Henning von der Forst,
Member of the Management Board,
Nürnberger Versicherungsgruppe

Dipl.-Kfm. Bruno Gantenbrink,
Managing Partner,
BEGA Gantenbrink-Leuchten KG

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

Professor Dr. Michael Hoffmann-Becking,
Lawyer,
Hengeler Mueller Lawyers

Dr. Franz Wilhelm Hopp

Professor Dr. A. Stefan Kirsten,
Member of the Management Board,
ThyssenKrupp AG

Dr. Karl-Ludwig Kley,
Member of the Management Board,
Deutsche Lufthansa AG

Professor Dr. Renate Köcher,
Executive Director,
Institut für Demoskopie Allensbach

Professor Dr.-Ing. E. h. Berthold Leibinger,
Managing Partner,
Trumpf GmbH + Co. KG

Professor Dr. Dirk Lepelmeier,
Executive Director,
Nordrheinische Ärzteversorgung
Einrichtung der Ärztekammer Nordrhein

Udo van Meeteren

Dr. Claus Meier,
Senior Church Councillor Member of
the Ecclesiastical Council,
Evangelical Lutheran Church of Bavaria

Dr. h. c. Adolf Merckle

Dr. Markus Michalke,
Managing Partner,
MIC Capital GmbH

Dipl.-Kfm. Karsten Müller-Uthoff (from 2005),
Member of the Management Board,
Ärzteversorgung Niedersachsen

Werner Nicoll,
Member of the Management Board,
ARAG Allgemeine Rechtsschutz-Versicherungs-AG

Klaus Oberwelland (to end of April 2005),
Managing Partner,
August Storck KG

Hanns A. Pielenz (to end of August 2005),
Managing Partner,
Amann & Söhne GmbH & Co. KG

Robert Rademacher,
Former Chairman of the Management Board,
Gottfried Schultz GmbH & Co. KG

Hartmut Retzlaff,
Chairman of the Management Board,
STADA Arzneimittel AG

Petra Schadeberg-Herrmann,
Partner, Krombacher Brauerei
Bernhard Schadeberg GmbH & Co. KG

Dr. Ulrich Schröder (from 2005),
Chairman of the Management Board,
NRW.BANK

Helmut Späth,
Deputy Chairman of the Management Board,
Versicherungskammer Bayern

Thomas Unger,
Member of the Management Board,
Metro AG

Professor Dr.-Ing. Dieter H. Vogel,
Managing Partner,
LGB & Vogel GmbH

Professor Dr. Carl Christian
Freiherr von Weizsäcker,
Professor Emeritus, University of Cologne

Werner Wenning,
Chairman of the Management Board,
Bayer AG

Hartmuth Wiesemann,
Member of the Advisory Board,
ALDI Einkauf GmbH & Co. OHG

Gerhard Winkel,
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Report of the
Managing Partners

Group Management Report

The Group

The HSBC Trinkaus & Burkhardt Group comprises 16 active companies. The parent company is HSBC Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien (KGaA).

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

HSBC Trinkaus & Burkhardt KGaA

HSBC Trinkaus & Burkhardt (International) SA
Luxemburg

HSBC Trinkaus Investment Managers SA
Luxemburg

HSBC Trinkaus Investment Management Ltd.
Hongkong

HSBC Investments Deutschland GmbH
Düsseldorf

Internationale Kapitalanlagegesellschaft mbH
Düsseldorf

International Transaction Services GmbH*
Düsseldorf

HSBC Trinkaus & Burkhardt Immobilien GmbH
Düsseldorf

HSBC Trinkaus Consult GmbH
Düsseldorf

HSBC Trinkaus Immobilien Beteiligungs-KG
Düsseldorf

HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH
Düsseldorf

Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH
Düsseldorf

HSBC Trinkaus Private Wealth GmbH
Düsseldorf

Grundstücksgesellschaft Trinkausstraße KG
Düsseldorf

Joachim Hecker Grundbesitz KG
Düsseldorf

Dr. Helfer Verwaltungsgebäude Luxemburg KG
Düsseldorf

* at-equity konsolidiert

The Group is managed as a single entity by the Managing Partners of the KGaA. Supervisory or advisory boards supervise the managing directors of the individual companies.

Notwithstanding the legal independence of the companies, all companies are managed under a common strategy, thus ensuring that every Group company is capable of fulfilling its obligation at all times.

The Business Divisions

Independently of their collective responsibility, the four Managing Partners are also assigned individual responsibility for specific business areas and head office functions. In the Extended Management Group the Managing Partners are assisted by Mr. Manfred Krause. The assignment of responsibilities applies not only to the KGaA and its branches, but also the operations of its subsidiaries.

Executive Management

Central Functions A

Andreas Schmitz
Chairman of the Managing Partners (Speaker)

Company Secretaria

Compliance

Revision

Central Functions B

Paul Hagen
Managing Partner

Accounting

Controlling

Market Risk Control

Central Functions C

Dr. Olaf Huth
Managing Partner

Personnel

Press & Publicity

Division I

Dr. Olaf Huth
Managing Partner

Private Banking

Division II

Andreas Schmitz
Managing Partner

Corporate Banking

International Business

Corporate Finance

Primary Markets

Manfred Krause
Member of the Extended Management

Corporate Banking

International Business

Division III

Carola Gräfin von Schmettow
Managing Partner

Institutional Clients

Asset Management

Division IV

Carola Gräfin von Schmettow
Managing Partner

Proprietary Trading

Treasury

Treasury Sales

Division V

Paul Hagen
Managing Partner

Credit Operations

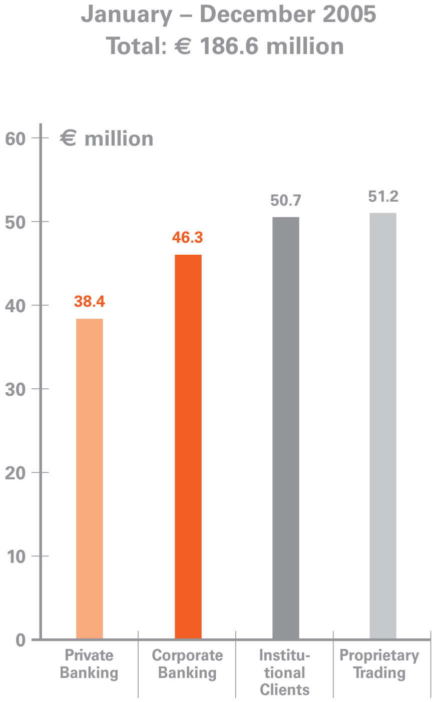
Business Process Development

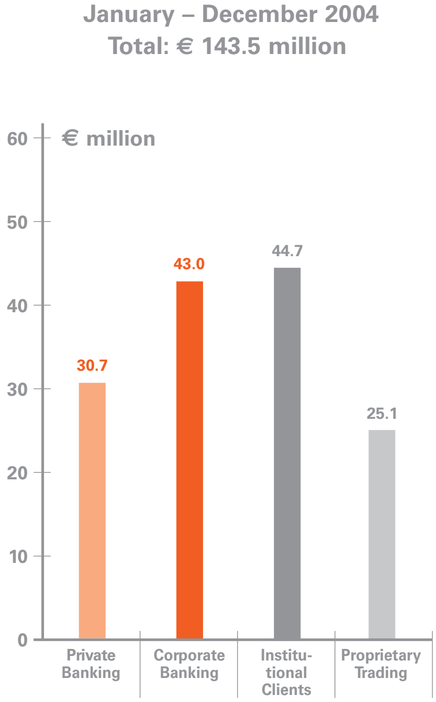
Information Technology

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 or indirect costs to the profit-oriented Divisions I, II and III and also to Proprietary Trading.

Divisional profits are calculated on the basis of partial cost allocation.

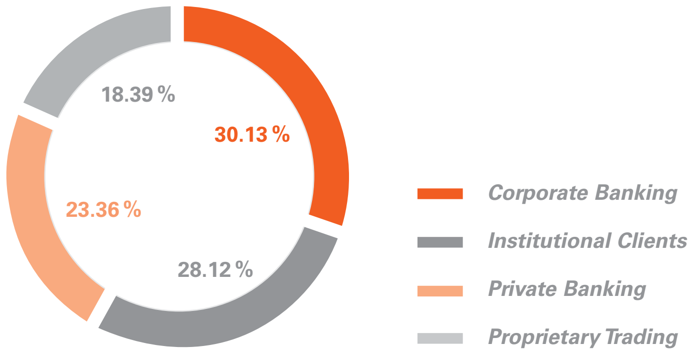
Contributions to profit





After deduction of the € 49.2 million net costs incurred by head office functions during 2005, as against € 34.2 million for 2004, the 2005 operating profit was € 137.4 million (2004: € 103.0 million). The mean contributions to profits over the last five years reveal a very balanced picture:

Five-year average profit contributions



Strategic Direction

The process of concentration on the financial markets continues, although still at far too slow a pace, making sustainable changes to the competitive environment. An ever-more differentiated range of financing and investment alter-natives is extending the spectrum of financial services and the profile of the financial profession. New technologies are also creating new products and distribution channels, but at the same time markets are becoming more transparent, eroding the information lead enjoyed by individual market participants. The size of the transactions to be executed is also steadily increasing.

We at HSBC Trinkaus & Burkhardt have recognised this development and adapted to it at an early stage. With a view to the growth in the market for banking services into a new global dimension and as a result of our efforts to take on the position of a core bank for our important corporate and institutional clients, the Managing Partners of HSBC Trinkaus & Burkhardt together with the majority shareholder HSBC decided to propose to the Annual General Meeting at the end of May 2006 the conversion of the legal form of the Bank from a Partnership Limited by Shares (KGaA) to a German Stock Corporation (AG). This step is on the one hand a clear vote of approval from the employees and the management of HSBC Trinkaus & Burkhardt for the majority shareholder HSBC and on the other signals HSBC's commitment to HSBC Trinkaus & Burkhardt as the Group member responsible for the German market.

We shall continue to combine the "best of both worlds" for our clients in the new structure as well, namely the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. In this market positioning, the comprehensive, qualified and individual servicing of wealthy private clients is one of the core business areas with major potential for development.

Building on a solid foundation of traditional banking services, we focus on offering selected clients sophisticated financial services as solutions to complex problems, on both national and international level. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

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

- We concentrate on the target groups of wealthy private clients, corporate and institutional clients and we aim to become a core bank for all our clients.

- We continuously analyse our activities in order to gear them towards optimally meeting the national and international needs of our existing and future clients. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing our clients.

- Financial innovation is our strength, because the application of wide-ranging expertise is the only way to successfully deliver value-added banking.

- We are constantly expanding our range of securities settlement services for other financial institutions. The securities settlement joint venture with T-Systems underlines our ambition to become the best securities settlement bank in Germany with the joint subsidiary International Transaction Services GmbH (ITS).

- We can draw on the resources of one of the largest banking groups in the world, the HSBC Group. This applies to both technical product know-how and the regional network.

If this strategy is to be successful, we must ensure than we continue in future to satisfy the following conditions at all times:

- We must foster long-term relationships with our clients, providing them with the growing number of increasingly complex financial services they require within the framework of trust born of relationship banking.

- We must develop the regional links and the product knowledge of the HSBC Group for our clients without having to make compromises in terms of their requirement of an individualised private bank servicing concept.

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

- We must invest in staff training and qualifications in order to establish our value-added banking in the market place increasingly on an international level as well.

- 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 remuneration which is in line with the market.

We firmly believe that this strategy, not least also in the new legal form of the German Stock Corporation (AG), offers a broad base for ensuring our long-term future economic success, even in the German financial market place which is undergoing major changes.

The 2005 Financial Year

The economic environment

Driven by lively company investment activity, the world economy expanded at an above-average pace in 2005 with growth of a good 4 %. The engine of growth was running at a high speed primarily in Asia. However, the Federal Republic of Germany again lagged clearly behind with GDP growth of around 1 %.

The rise in the oil price which could already be identified in 2004 also continued in 2005. Despite higher energy prices, inflation was only just off the ECB target, like in previous years, with prices increasing by 2.2 % in the Eurozone. For the first time in five years the ECB raised the base interest rate in December 2005 thus putting an end to the clearly expansive phase of its monetary policy. The preventive dampening of inflationary risks was the decisive factor for the increase in the base interest rate to 2.25 %. In the USA, the rising interest rate cycle continued steadily with the base interest rate reaching 4.25 % at the end of last year after 2.25 % at the end of 2004.

Ten-year government bonds were yielding 4.40 % in the USA and 3.30 % in the Eurozone at the end of 2005. The US dollar was robust over the entire year with the euro falling against the US dollar from US$ 1.36 to US$ 1.18 and touching a low of US$ 1.1640.

2005 was a good year for the stock markets. The German DAX® share index moved between 4,178 and 4,627 points in the first half of the year and in a range of 4,530 to 5,459 points in the second half. Compared with the level at the end of 2004, stock market growth of 27.1 % was achieved last year.

Profitability

2005 was a thoroughly successful year for the Bank. We clearly exceeded our forecasts in all important areas. Thanks to the encouraging trend on the international capital markets, HSBC Trinkaus & Burkhardt was able to benefit more than averagely from its strategic positioning with a traditionally high share of net fee income, particularly from the securities business. At the same time our intensive cooperation with the HSBC Group brought further successes with it.

We improved the results significantly in all lines of business. The growing number of client relationships as well as their systematic development in all facets of our service offer was and remains the main success factor in our client business. We have steadily built up and expanded the necessary employee, knowledge and system capacities as well as other infrastructure capacities in recent years as well. This enabled us to react to the higher requirements made by our clients and the increased transaction figures with the usual quality last year. The rapid development of the funds managed and administered for our clients is only one example of this. In Private Banking, the volume of assets under management grew from € 11.4 billion to € 19.9 billion compared to the previous year. INKA Internationale Kapitalanlagegesellschaft mbH increased the assets in fund administration from € 24.5 billion to € 38.8 billion as a result of the consistent expansion of the master capital investment company offer. These extraordinary successes are based essentially on the early investments made in qualified staff and in IT systems. Overall, the funds under management and administration as an important performance indicator in asset management grew within one year by more than 50 % from € 41.8 billion to € 62.8 billion. We also improved again on the already very good prior-year proprietary trading result and reported the highest profit since converting to IFRS accounting in 1997.

Operating profit grew by 33.4 % from € 103.0 million to € 137.4 million. We had aimed for a double-digit percentage increase which already appeared ambitious given the good previous year's figure. We nevertheless succeeded in clearly beating this target.

The improvement in earnings in the client segments can be seen above all from the 16.8 % increase in net fees and commissions from € 226.4 million to € 264.4 million. Net interest income was up by 7.6 % from € 69.3 million to € 74.6 million.

Our trading profit was increased by 36.6 % from € 54.4 million to € 74.3 million.

The trend in risk provisions and administrative expenses also made a notable contribution to our good operating profit.

On balance we were able to reduce risk provisions in relation to our credit business in 2005. This was made possible by significant reversals alongside a further reduction in additions. We have maintained our conservative risk assessment; several commitments for which we had made loan loss provisions performed far more positively than could originally be expected.

The 14.9 % rise in administrative expenses from € 249.3 million to € 286.4 million is in line with our strategic goals. On the one hand, we continue to make targeted investments in clearly-defined growth areas within the Bank without neglecting the breadth of our offer. This is associated above all with an increase in the number of staff and higher IT costs. On the other hand, the major success of the 2005 financial year has led to a correspondingly significant increase in performance-related remuneration. Major significance has been attached to performance-related remuneration at the Bank for many years as it leads overall to far greater flexibility with respect to personnel expenses. As a result of the more than proportionate increase in profits, we were able to further lower the cost-income ratio as an important indicator of success for our banking business to 60.8 % after 66.8 % in 2004.

There was a structural change in administrative expenses in 2005 chiefly as a result of two measures. First, we set up International Transaction Services GmbH as a joint venture with T-Systems International GmbH. This was associated with both higher administrative expenses incurred with the establishment of the company and during the start-up phase and a decline in reported administrative expenses on account of the company being consolidated at equity. Second, we transferred selected financial investments as well as our pension liabilities and obligations for anniversary payments to a Contractual Trust Arrangement (CTA). The expenses resulting from the obligations are to be set off against the income from the assets transferred according to IFRS. Both factors will not take full effect until 2006 as they were not realised until the second half of the year in each case.

Both measures as well as the sale of financial investments resulted in high extraordinary income in 2005. This led to an even stronger increase in profit before tax than in operating profit, namely of 59.1 % before tax from € 122.2 million to € 194.4 million and of 50.4 % after tax from € 78.4 million to € 117.9 million. We were therefore able to improve the return on equity as a performance ratio from 19.5 % to 30.6 % before tax and from 12.5 % to 18.5 % after tax.

The asset situation

In 2005 total assets rose substantially by 19.7 % to € 16.0 billion. On the assets side, there was a significant rise in loans and advances to banks in particular of 80.2 % to € 4.6 billion. Furthermore, there was a more than five-fold increase in balances with the Deutsche Bundesbank to almost € 800 million, which was balance sheet date-related, and financial assets held for trading purposes also increased by 4.1 % to € 6.5 billion. On the other hand, loans and advances to clients declined by 3.1 % to € 2.6 billion and financial assets by 12.3 % to € 1.5 billion. As a result of the establishment of a Contractual Trust Arrangement (CTA), plan assets which were reported under financial assets to date were set off against pension obligations leading to a notable reduction in provisions of 38.8 % overall to € 0.2 billion. On the liabilities side, there were increases of 20.5 % in client accounts to € 7.1 billion, of 55.9 % in deposits by banks to € 1.4 billion and of 18.7 % in financial liabilities held for trading purposes to € 5.9 billion.

The changes in loans and advances to banks, and to deposits by banks, were mainly due to the Group's excellent liquidity and also to balance sheet date-related effects. One reason for the excellent liquidity situation is high levels of client deposits. These reflect the significant inflows of capital in the business with wealthy private clients and in the fund business. A second reason for the liquidity situation is the fact that, for some years now, our various trading departments have made a significant contribution to Group liquidity through the ever growing number and diversity of structured issues. The decline in loans and advances to clients is balance sheet date-related.

As a result of the expansion of trading with equities and correlation products, there was significant growth in the size of our portfolios of equities and other variable-income securities held for trading purposes. On the other hand, our portfolios of fixed-income securities and marketable assets declined slightly overall. The increase in both financial assets and liabilities held for trading purposes also resulted from the increased market value of OTC derivatives.

The financial position

The Bank's capital resources still exceed the regulatory requirements by far. Nevertheless, the increase in risk assets and in the market risk positions according to the German Banking Act (Kreditwesengesetz – KWG) led to a slight decline in the equity capital ratio to 11.5 % and in the core capital ratio to 7.3 %, calculated in accordance with Principle I of the German Banking Act. No capital measures were undertaken during 2005. All maturing subordinated liabilities were replaced through the issue of new subordinated liabilities, and were increased – exploiting favourable market conditions – by € 34.9 million to € 308.1 million. The revaluation reserve remained almost unchanged at € 93.9 million compared to € 92.3 million the previous year.

Liquidity at the Bank also remains good. Regulatory requirements were significantly exceeded throughout the year, with the key liquidity ratio in accordance with Principle II of the German Banking Act (Grundsatz II) at an average of 1.88 for the end-of-month positions.

Outlook

2006 will probably be the fourth year in succession in which the global economy grows by more than 4 %. We are expecting to see the fastest growth momentum in Asia while growth in the USA will probably slow down slightly to 3.3 %. There are no signs of a strong cyclical upturn either in the Eurozone or in Germany where economic growth should come to just under 2 % and around 1.5 %, respectively.

The trend in raw materials prices, in particular for oil, could still prove to be a depressive factor. An inflationary revival remains an issue, therefore, also with a view to the increase in VAT in Germany in 2007. The ECB is likely to be able to keep inflationary expectations at bay with two base interest rate increases in 2006. As base interest rates in the USA have already approached the neutral level, the significant devaluation of the US dollar, albeit no sharp drop in the US currency, is to be expected over the course of the year.

2006 will offer improved opportunities for banks in Germany although our forecast for growth and inflation is only guardedly optimistic.

We are confident that HSBC Trinkaus & Burkhardt will again be able to successfully hold its ground in this environment. The optimistic underlying tone we gave the outlook for 2005 turned out to be right last year. Based on our consistent strategic orientation and the more intensive cooperation with the HSBC Group, we intend to further expand business volume in the German market. The basis of our business has been broadened through the steady expansion of our market position in the three client segments Private Banking, Corporate Banking and Institutional Clients. It is now a matter of intensifying these new business relationships.

The starting base is very high given the successes achieved in the 2005 financial year in which we clearly exceeded our forecast. Nevertheless, we are pursuing the goal of further increasing our operating profit in 2006 as well. This is subject to the continuation of the trend towards higher securities turnover seen last year as well as continued strong demand for structured products in the bond business. We see good opportunities here. The credit risk costs which made a positive contribution to the operating profit in 2005 as a result of the release of risk provisions for individual large commitments should be in the single-digit million region. We will continue to keep a close eye on administrative expenses, but are prepared to carry our further investments in order to expand our market shares in the target client segments in the long term and offer further special services. All in all, we are pursuing the goal of high single-digit percentage growth in our operating profit. As there are no signs at present of other income from the sale of financial assets, which was particularly high in the latest financial year, the net result will turn out to be lower than in 2005.

We are expecting increased operating profits from all business segments. The assets under management in our Private Banking business has increased significantly as a result of the inflows of capital last year and the good performance forming a solid base for the further expansion of the business. We will continue to broaden our product offer. The performance of important asset categories will presumably require the greater use of structured products in 2006 in order to realise optimum risk-return profiles for the portfolio. Asset diversification will continue to be of major importance. The introduction of a new portfolio asset management system will clearly improve reporting for our clients and therefore generate additional value added. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident of a further substantial increase in both volumes under management and in the earnings contribution in our Private Banking segment. We are open to acquisitions in this client segment.

HSBC Trinkaus & Burkhardt's integration into the globally-active HSBC Group gives the Bank a unique position in the Corporate Banking business. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. We aim to use the trust gained to broaden our service offer. Offering additional services is unavoidable as the credit margins of counterparties with an immaculate credit standing have declined dramatically on account of the major competitive pressure. As a result, it is no longer possible to adequately cover the possible default risk or generate reasonable returns on equity. This applies in particular to the syndicated loan business with internationally-operating groups. The earnings contribution in the Corporate Banking business can therefore only be increased by expanding the credit portfolio with the clients using other banking services at the same time. A pure debtor-creditor relationship does not offer an adequate basis for a lasting business relationship. We therefore also aim to further intensify in particular the international services for which the Bank has the best prerequisites owing to its integration into the globally-operating HSBC group.

As regards our business with institutional clients, we are expecting a further increase in interest rate and equities business turnovers over the course of the year. The share of structured products, which already increased significantly in 2005, should again prove to be the decisive driving factor. Individual solutions and products which are tailor-made to the requirements of the institutional clients and which illustrate the targeted risk-return profile are mandatory requirements for standing out as a trusted advisor for the clients. The product development competence of the entire HSBC Group is available for this; we have direct access to the global trading books which also enable large-volume transactions and the assumption of risk.

We see further growth in demand for our asset management services. Our subsidiary HSBC Trinkaus Capital Management GmbH has benefited and will continue to benefit from the greater use by institutional clients of mutual funds geared especially to their requirements. In order to highlight the global product cooperation with HSBC in the area of global asset management, our HSBC Trinkaus Capital Management GmbH subsidiary has been renamed HSBC Investments Deutschland GmbH. The success of our subsidiary INKA Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for our master capital investment company offer should continue. In addition, we will significantly improve our performance as a global custodian through more intensive cooperation with HSBC Securities Services. The success with acquisitions in 2005 makes us optimistic for all three services – portfolio management, the master capital investment company offer and global custody. We are also ready to make acquisitions in all three lines of business.

Our continuing success with the HSBC Trinkaus Investment Products sales initiative is expected to further improve our market position with respect to sales of certificates, warrants and mutual funds. Active product marketing should lead to an increase in volume and therefore also revenues, especially as there has been growing interest from retail investors, to whom we sell our products via other banks, in recent months as a result of the good stock market performance.

We have reorganised our trading activities in the wake of the further progress made with integrating HSBC Trinkaus & Burkhardt into the HSBC Group. The interest and foreign exchange trading books have been geared exclusively to supporting client activities and we are benefiting from the liquidity of the HSBC Group trading books. We expect that the resulting declines in proprietary trading income can be more than compensated by the increased volume of client transactions. Equity trading and the equity derivatives activities will be expanded further on the other hand in the wake of the division of labour and are expected to support our HSBC Trinkaus

Investment Products sales initiative on the product side in future. Overall, growth in revenues from proprietary trading is not to be expected owing to this reorientation and the very high prior-year result. Furthermore, proprietary trading is the most volatile segment and therefore entails the greatest forecast uncertainty owing to its strong dependence on market developments.

After the completion of the integration of our securities settlement into the joint venture International Transaction Services GmbH set up together with T-Systems in 2005, we are expecting a significantly higher transaction volume this year as a result of the further broadening of the client base for which ITS will take on new personnel. As this company is consolidated at equity, these effects will only be reflected on a net basis in investment income.

The investments in IT systems will be continued to the extent planned in 2006 in order to realise further increases in efficiency in different areas of the Bank. These will be accompanied by adjustments which are necessary to effectively support integration into the HSBC Group. A new portfolio asset management system was put into operation at the turn of the year for which further modules will be developed. The projects started, in particular the preparation for Basel II, the introduction of a new reporting system and outsourcing of the securities settlement system, will require considerable resources over the whole of 2006. We have planned the targeted recruitment of additional employees in order to be able to realise the growth planned in our client business. The Bank's regulatory costs, which are already high, will increase further. Overall we are expecting an increase in administrative expenses in the high single-digit percentage region for 2006.

Following the further issue of subordinated liabilities and after the planned reinvestment of net income, the Bank's capital position is still good and will enable further growth. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business.

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 risk as well as 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 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 avoid liquidity risk as far as possible and are prepared to accept lower profits as a consequence. 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.

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

Risk management organisational structure

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

- the Credit Committee for counterparty risks,
- the Asset and Liability Management Committee for market and liquidity risks, and
- the Operational Risks Committee for operational and legal risks.

The internal audit department plays a major role in early risk detection. In its reports it highlights materially significant risks through the classification of its audit findings.

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

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

Strategic risks

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. HSBC Trinkaus & Burkhardt is particularly exposed to such risks as there is strong competition for our clients in the market owing to their major significance.

The Bank's 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 issues of interest rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients, can only counteract this risk to a limited extent. Thanks to our stronger integration into the HSBC Group, we can counteract this risk in a targeted way through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

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

The further modernisation of our IT architecture will demand significant personnel and financial resources in future as well. The establishment of a securities settlement joint venture together with T-Systems has enabled us to reduce the strategic risk resulting earlier from our heavy investment in the securities settlement system.

We were able to conclude a large part of the introduction of a Private Banking portfolio management system in 2005 and started to convert reporting for our clients. We made significant progress with our project to automate reporting in the field of finance. We will also continue with this project on the same targeted basis as the implementation of the equity capital rules laid down in Basel II. Both projects involve considerable costs for the introductory work and future license fees. All in all, we are extremely concerned about the fact that the regulatory costs for the bank will continue to rise significantly. These costs have therefore now taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. It remains to be seen whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for banks.

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

Counterparty risk

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 contractual partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk.

In identifying counterparty risk, the Bank takes into account the risks arising from balance sheet assets (for example, not only traditional bank loans, but also equity and bond portfolios), from its guarantee, documentary credit and discounting business, as well as from its dealings in derivative products. Purchase risks, especially those arising from securities, foreign exchange and payments transactions, are also included.

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

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

Furthermore, netting agreements or agreements over the backing of market values are entered into, especially in the case of derivative transactions. Where appropriate, for example in the case of long-term financing or pure securities market loans, collateral is generally taken. The valuation of collateral is regularly reviewed.

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

The new minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht ~ BaFin) in December 2002 are being consistently complied with. The Bank's Managing Partners have duly delegated loan approval authority, in accordance with the statutory provisions, in relation 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 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. Larger loans, when approved by the Bank's Credit Committee, then require the approval of the Credit Working Party of the Shareholders' Committee, which observes the Shareholders' Committee obligations laid down in the Articles of Association.

For the evaluation of the credit portfolio, all counterparties are currently still assigned to one of seven credit risk categories. We take four factors into consideration here: Economic and financial soundness, market position, management and future prospects. Categories 1 to 3 correspond to the internationally recognised investment grade rating and categories 4 and 5 to a sub-investment grade rating. Category 6 is assigned to facilities for which bad debt provisions have been raised, while Category 7 indicates credit risks where non-performance is a near certainty. In the light of the pending reform of the Basel Capital Accord, the Bank has developed a new 22-stage internal rating system (see section on Basel II). This system is already being used for risk classification parallel to the existing system until it is accepted by the supervisory authorities, Each credit risk must be assessed annually, or more frequently where the credit rating is lower, and subjected to the approvals procedure. This procedure verifies whether the previous rating is still justified and whether the profitability of the client relationship is proportional to the risk involved.

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. The system also serves as a basis for notifying the Bundesbank of large exposures and loans and is used in addition to generate internal statistical data and numerous reports.

In the case of non-performing or doubtful debts, teams from the client relationship, credit and legal departments work out strategies and solutions.

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. Credits 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 recorded and monitored separately. Country limits are proposed by the International Department on the basis of political and economic analyses of the countries in question. They must be approved by the Management and the Shareholders' Committee and reviewed at least annually. In this context, the Bank makes use of the high-quality expertise available to it through HSBC's worldwide office network, especially in Asian and Latin American countries.

The utilisation of country limits is controlled with the help of computer software that also takes risk transfers into account.

The amount and structure of loans and advances to banks and customers are described in the Notes. The Group 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 and therefore accept many risks which are difficult for us to evaluate.

Counterparty risks related to the OTC derivatives business are shown in note 54. These consist of the positive market values of transactions, and are broken down according to type of transaction.

Basel II

In 2005, the EU guidelines regulating the implementation of the equity capital recommendations of the Basel II framework and the timetable for their introduction within the European Union were adopted. Central to Basel II is the changing of the regulatory equity capital requirements governing the credit industry. The new regulations will lead to a far more differentiated assessment and quantification of credit risk. HSBC Trinkaus & Burkhardt is currently working on the implementation of an IRB (internal ratings-based) approach in line with Basel II with effect from 1 January 2008. The Bank expects the introduction of an internal rating system to enable the risk-sensitive controlling of its portfolio in compliance with the capital adequacy requirements and to implement risk-adjusted controlling based on this system throughout the Bank.

The Basel II requirements are being implemented at HSBC Trinkaus & Burkhardt by a central project group set up to coordinate implementation in the fields of credit, accounting and IT. With a view to the introduction of the IRB approach, the Bank introduced a new Basel-II compliant client rating system in 2005. Rating systems developed by the Bank itself as well as systems adopted from the HSBC Group are used to determine the client ratings. A focal point of this work in 2005 was the development and implementation of an IRB rating system for the portfolio of German corporate clients. The system has been used since September 2005 to assess the client credit rating in the lending process.

With regard to IT, the Basel II project is closely linked with the introduction of a new bank supervision reporting system in order to guarantee a consistent data basis.

The Bank is working closely together with the HSBC Group on the introduction of Basel II-compliant methods, systems and processes. In doing so, it is benefiting significantly from the international transfer of know-how between the Group’s various units. As a result, we are confident that we will be able to implement these comprehensive regulatory requirements efficiently and on a targeted basis.

Operational risk

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

HSBC Trinkaus & Burkhardt has always attached major importance to the reduction of operational risks to an acceptable level while taking the costs involved into consideration. The Operational Risks Committee was already set up in 2000 as a central body responsible for the control of operational risks across the board within the Bank. The Chairman of the Committee is the Managing Partner responsible for risk controlling. The Committee represents a further important element in the Bank's risk management organisational structure and enables the integrated cross-division control of the operating risks in the Bank.

The Operational Risks Committee's job is to identify operational risks across the Group, to evaluate and monitor them and to take steps for their control and future avoidance. The business procedures and processes in all of the Bank's divisions and subsidiaries are analysed in collaboration with the respective divisional heads and managing directors as well as the decentralised coordinators for operating risks in order to identify potential operational risk.

The operational risks, once identified, are evaluated according to their loss potential and the likelihood of their occurrence both before and after taking into account any risk reduction measures already taken. If the Committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. It can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

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

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

The minutes of the Committee meetings are presented to the entire management group for approval. This ensures that all managing partners are constantly informed about current developments and the Bank's risk profile.

A further significant instrument in the identification and observation of operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus & Burkhardt are involved. All operational risks that lead to significant loss, or which could have done so under unfavourable conditions, must be reported to the Committee's office. This ensures that each (potential) incident is analysed to establish whether the error was an isolated occurrence or is likely to recur. The Committee then decides on any measures necessary to reduce that risk. All operational incidents above a certain preset reporting threshold are centrally recorded in an incidents database.

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 attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The Committee's work has generated significantly greater awareness of operational risk among all Bank staff in recent years. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk.

Operational risk is minimised at HSBC Trinkaus & Burkhardt by the constant control of working processes, security measures and not least by the employment of highly qualified staff. Operational risk is also partly covered by insurance. The processes in the Bank are regularly analysed and improved on an on-going basis. Flat hierarchies and direct communication mean that problems can be quickly removed and the risk exposure 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.

The increasing automation of procedures, the ever-increasing complexity of the business as well as the backup by ever more sophisticated and powerful IT systems means greater dependence on a fully functioning technological infrastructure. Accordingly, system security, downtime limitation as well as the Bank's backup systems are of central importance. Our IT system crisis management plans were again tested and modified further in the year under report. In view of the importance of information technology to the Bank's business activities, the continuing development of systems management will remain a major focus of our future activities to limit operational risk.

With the introduction of the Basel-II framework, operational risks have to be supported through equity capital in future. The Bank plans to introduce the so-called standard approach for calculating supervisory equity capital backing for operational risks from 1 January 2008. All main qualitative and quantitative requirements associated with the introduction of the standard approach are already fulfilled today.

Market risks

Market risks are the potential losses on trading positions which can arise from unexpected changes in the market prices of securities and currencies, interest rates and volatilities, dividend estimates and correlations. Market risks in proprietary trading arise exclusively from interest rate, equity and foreign exchange activities.

To measure market risks 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, in the event of an unfavourable market trend. Our value-at-risk model is based on a historical simulation of risk factors over a period of 500 trading days and covers interest rate, equity, foreign exchange and volatility risks. Interest rate risk embraces both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. Spread risks from other interest-rate positions are not included in the model in view of their minimal importance for proprietary trading. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits.

Note 55 sets out the Bank's total market risk according to our internal risk model and shows comparable figures for our Luxembourg subsidiary.

The model (excluding the specific interest-rate risk), with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to the Bank's trading book market risk pursuant to the capital ratio according to the German Banking Act. The model-specific add-on factor currently amounts to 3.2. We also use the model to quantify the market risks inherent in special assets managed by our subsidiaries within the scope of an outsourcing service contract.

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.

For risk assessment quality assurance purposes we also conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. In 2005, no back-testing anomalies were found anywhere throughout the Bank, a fact which suggests that the risk modelling employed is probably still on the conservative side.

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

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 once a year on the basis of an analysis of capacity to assume risk and also the Asset and Liability Management Committee's capital allocation decisions. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the limits are automatically reduced. Owing to the favourable trend in earnings, it was not necessary to reduce the risk limits in the latest financial 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. Market risks arising from the investment of equity capital components are allocated to the Bank's investment book. These risks are determined outside the risk models and are controlled at executive management level.

Liquidity risk

Liquidity risk is the danger of insolvency. We avoid this by maintaining high liquidity and by the responsible structuring of assets and liabilities. We also monitor loan commitments which have not yet been disbursed and liquidity requirements arising from pending transactions. In addition, it is important to fully record the strongly fluctuating balances of incoming and outgoing payment flows.

The Bank's structural liquidity position is determined and managed by the Asset and Liability Management Committee. The figures disclosed in the Bank's liquidity balance sheet are a major help here: The substantial Lombard Pool of securities that we maintain at the Bundesbank provides an important liquidity reserve which fully covers the needs of our various business activities.

Daily liquidity is managed by the Short-term Treasury Desk. This is where the payment streams from client business and own-account business flow together and are placed in the interbank money market, or used for securities repo transactions. Our internal cash reserves comfortably exceed the liquidity requirements of the Federal Financial Supervisory Authority (BaFin).

Staff

Number of employees

The number of persons employed by the Group had fallen by 94 to 1,527 by the end of 2005. 184 employees of the newly-founded company International Transaction Services GmbH, which is consolidated at equity, are no longer included. Eight trainees completed their banking qualifications during 2005 and six passed their examinations in office communications.

At the end of 2005 we were paying retirement, widow's and orphan's pensions to 519 recipients compared to 502 at the end of the previous year.

Training and Development

In view of the enduringly fierce competition in the banking industry, the technical and social skills of our employees are of the utmost importance, because only highly qualified personnel are capable of meeting the exacting quality standards demanded by our work. As in the past, we continue to foster the necessary skills through in-house seminars, product-specific training courses, management and communication training, IT and PC seminars, as well as foreign language courses and secondment abroad. When selecting vocational training activities, we pay close attention to the special requirements made of our employees in the various areas of business.

Performance-related remuneration

Performance-related remuneration has proven to be an effective instrument in motivating our staff regardless of their position in respect of collective wage agreements. Accordingly, the profit-oriented payment of managerial staff is of central importance.

Thanks

The Bank owes its success to the commitment and 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 in the latest financial year.

Shareholders and Shares

Shareholders

As at 31 December 2005 the Bank had equity capital of € 70.0 million, divided into 26.1 million shares of no par value. 52 % of the share capital was listed on the Düsseldorf, Frankfurt am Main, Munich and Stuttgart stock exchanges.

HSBC Holdings plc, London, indirectly holds 77.9 % (2004: 73.5 %) of this share capital and Landesbank Baden-Württemberg in Stuttgart indirectly holds an unchanged 20.3 %.

Share Price and Market Value

During 2005, our share price rose 8.7 % to € 87.50. The lowest share price of the year was € 75.92 and the highest € 89.00. From an initial issue price of DM 190 per DM 50 nominal share (25 October 1985), the listed share price and market capitalisation have evolved as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in € million
31.12.1985	18,000,000	17.60	317.5
31.12.1990	22,000,000	19.80	435.3
31.12.1995	23,500,000	30.60	718.5
31.12.2000	26,100,000	110.00	2,871.0
31.12.2003	26,100,000	80.00	2,088.0
31.12.2004	26,100,000	80.50	2,101.1
31.12.2005	26,100,000	87.50	2,283.8

*Adjusted for the 10:1 share split on 27 July 1998.

Since the initial flotation, the value of the share, assuming reinvestment of dividends and participation in all capital increases, has increased by a factor of approximately 7.8. This is equivalent to average growth of around 10.7 % p. a.

Dividend

For the 2005 financial year, we propose paying a dividend of € 2.55 per share (2004: € 2.25), thus ensuring that our shareholders participate suitably in the increase in profits.

Düsseldorf, 10 February 2006

The Managing Partners

HSBC Trinkaus & Burkhardt
Kommanditgesellschaft auf Aktien
Düsseldorf

Consolidated Accounts

Consolidated Income Statement
HSBC Trinkaus & Burkhardt

Assets € million	(Notes)	31.12.2005	31.12.2004	Change € million	Change %
Cash reserves	(20)	798.6	157.9	640.7	> 100
Loans and advances to banks	(5, 21)	4,561.9	2,531.0	2,030.9	80.2
Loans and advances to customers	(5, 22)	2,554.0	2,636.7	- 82.7	- 3.1
Risk provisions	(6, 23)	- 39.4	- 52.3	12.9	- 24.7
Financial assets held for trading	(7, 24)	6,470.6	6,215.6	255.0	4.1
Financial assets	(8, 25)	1,472.2	1,678.2	- 206.0	- 12.3
Property and equipment	(9, 26)	95.0	74.9	20.1	26.8
Intangible assets	(10, 26)	7.9	35.4	- 27.5	- 77.7
Other assets	(27)	30.6	45.7	- 15.1	- 33.0
Total assets		**15,951.4**	**13,323.1**	**2,628.3**	**19.7**

Liabilities € million	(Notes)	31.12.2005	31.12.2004	Change € million	Change %
Deposits by banks	(12, 30)	1,424.7	913.6	511.1	55.9
Customer accounts	(12, 31)	7,139.6	5,927.1	1,212.5	20.5
Debt securities in issue	(32)	45.3	16.9	28.4	> 100
Financial liabilities held for trading	(7, 33)	5,883.9	4,956.4	927.5	18.7
Provisions	(13, 14, 34)	224.7	367.0	- 142.3	- 38.8
Other liabilities	(35)	80.6	81.4	- 0.8	- 1.0
Subordinated capital	(36)	308.1	273.2	34.9	12.8
Minority interests held by third parties	(37)	844.5	787.5	57.0	7.2
Equity capital		70.0	70.0	-	-
Subscribed capital		210.5	210.5	-	-
Capital reserve		440.6	423.8	16.8	4.0
Retained earnings		123.4	83.1	40.3	48.5
		844.5	787.4	57.1	7.3
Anteile in Fremdbesitz		0.0	0.1	- 0.1	- 100
Total liabilities		**15,951.4**	**13,323.1**	**2,628.3**	**19.7**

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Consolidated Profit and Loss Account HSBC Trinkaus & Burkhardt

Profit and Loss Account € million	(Notes)	2005	2004	Change in € m	 in %
Interest receivable		218.3	174.1	44.2	25.4
Interest payable		143.7	104.8	38.9	37.1
Net interest income	(38)	74.6	69.3	5.3	7.6
Risk provisions	(6, 39)	- 9.7	1.6	- 11.3	-
Fees and commission receivable		415.7	324.0	91.7	28.3
Fees and commission payable		151.3	97.6	53.7	55.0
Net fees and commissions	(40)	264.4	226.4	38.0	16.8
Trading profit	(41)	74.3	54.4	19.9	36.6
Total administrative expenses	(42)	286.4	249.3	37.1	14.9
Other income	(43)	66.0	27.8	38.2	> 100
Other expenses	(44)	8.2	4.8	3.4	70.8
Profit on ordinary activities before tax		**194.4**	**122.2**	**72.2**	**59.1**
Taxes on income	(45)	76.5	43.8	32.7	74.7
Net income		**117.9**	**78.4**	**39.5**	**50.4**

Appropriation of net income:

€ million	31.12.2005	31.12.2004
Net income	117.9	78.4
Profit attributable to minority shareholders	0.0	0.0
Profit carried forward	5.5	4.7
Consolidated profit	**123.4**	**83.1**
Allocated to:		
Dividend distribution	65.3	58.7
Retained earnings and profit carried forward	58.1	24.4

The Managing Partners propose to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2004: € 2.25 per share). The origin and application of the value added are shown in Note 48.

Earnings per Share

Earnings per share, the detailed calculation of which is shown in Note 47, were as follows:

in €	2005	2004
Earnings per share	4.52	3.00
Diluted earnings per share	4.52	3.00

Cost/Income Ratio

The 2005 cost/income ratio for ordinary business activities (the relationship between total administrative expenses and income excluding risk provisions) was 60.8 % (2004: 66.8 %). The breakdown of the operating profit is set out in the segmental reporting in note 46.

Consolidated Statement of Changes in Capital Position HSBC Trinkaus & Burkhardt

in € m	Sub-scribed capital	Capital reserve	Retained earnings	Revaluation reserve for financial instruments	Consoli-dated profit	Total
As at 31.12.2003	**70.0**	**210.5**	**410.3**	**57.3**	**0.1**	**748.2**
Distribution of balance sheet profit				- 45.7		- 45.7
Retention from 2003 balance sheet profit			6.9	- 6.9		0.0
Changes in value resulting from currency differences				0.0		0.0
Addition from net income				78.4		78.4
Additions / disposals / market value fluctuations in 2004			6.6			6.6
2004 profit attributable to minority shareholders				0.0		0.0
As at 31.12.2004	**70.0**	**210.5**	**423.8**	**83.1**	**0.1**	**787.5**
Distribution of balance sheet profit				- 58.7		- 58.7
Retention from 2004 balance sheet profit			18.9	- 18.9		0.0
Changes in value resulting from currency differences				0.0		0.0
Addition from net income				117.9		117.9
Additions / disposals / market value fluctuations in 2005			- 2.1			- 2.1
2005 profit attributable to minority shareholders					- 0.1	- 0.1
As at 31.12.2005	**70.0**	**210.5**	**440.6**	**123.4**	**0.0**	**844.5**

Appropriation of net income:

€ million	2005	2004
Net income	117,9	78,4
Gewinne/Verluste, die nicht in der Gewinn- und Verlustrechnung erfasst worden sind	- 2,1	6,6
davon aus Finanzinstrumenten	1,6	16,7
davon aus Grundstücken und Gebäuden	9,7	0,0
davon aus versicherungsmathematischen Ergebnissen	- 13,4	- 10,1
Insgesamt	**115,8**	**85,0**

Consolidated Cash Flow Statement
HSBC Trinkaus & Burkhardt

€ million	2005	2004
Net income	117.9	78.4
Non-cash items in net income, and adjustments to reconcile net income with net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	- 101.0	69.7
Net profit from sale of investments, property and equipment	- 29.6	- 21.9
Other adjustments (net)	3.5	- 50.8
Sub-total	- 9.2	75.4
Changes to assets and liabilities from operating activities, after adjustment for non-cash components:		
Loans and advances to banks	- 2,030.9	- 1,051.4
Loans and advances to customers	79.4	- 281.6
Securities held for trading	672.6	849.7
Other assets	208.2	295.5
Liabilities	1,722.4	280.9
Debt securities in issue	28.4	- 164.2
Other liabilities	0.5	21.0
Total adjustments	680.6	- 50.1
Interest receipts	213.0	168.9
Dividend receipts	5.3	5.2
Interest payments	- 143.7	- 104.8
Income taxes paid	- 132.3	- 35.8
Cash flow from operating activities	**613.7**	**58.8**
Proceeds from the sale of		
Investments	38.6	64.4
Property, equipment and intangible assets	38.1	0.9
Payments for the acquisition of		
Investments	- 9.7	- 0.5
Property, equipment and intangible assets	- 16.2	- 16.8
Gains upon deconsolidation of Group companies	- 0.1	0.0
Cash flow from investment activities	**50.7**	**48.0**
Dividends paid	- 58.7	- 45.7
Adjustments to subordinated capital	35.0	33.0
Cash flow from financing activities	**- 23.7**	**- 12.7**

Cash and cash equivalents at beginning of period	**157.9**	**63.8**
Cash flow from operating activities	613.7	58.8
Cash flow from investment activities	50.7	48.0
Cash flow from financing activities	- 23.7	- 12.7
Cash and cash equivalents at end of period	**798.6**	**157.9**

Content
Notes to the Consolidated Accounts

Notes to the Consolidated Accounts

Accounting Principles

HSBC Trinkaus & Burkhardt KGaA's consolidated financial statements for the 2005 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU).

The accounts are presented to our shareholders and the general public in compliance with Section 315a para. 1 German Commercial Code (HGB) in conjunction with Article 4 of (EC) Directive no. 1606/2002 of the European Parliament and Council of 19 July 2005 concerning the application of international accounting standards.

The approval of the annual financial statements as well as the resolution on the appropriation of profits is the statutory function of the Annual General Meeting.

For purposes of clarity, all figures have been reported in millions of euros.

The consolidated accounts of HSBC Trinkaus & Burkhardt KGaA are included in the consolidated accounts of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987. At the end of 2005, HSBC Holdings plc had an indirect holding of 77.9 % in the share capital of HSBC Trinkaus & Burkhardt KGaA.

Accounting, Valuation and Consolidation Methods

1 *The Group*

The consolidated accounts basically include all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt KGaA, directly or indirectly holds the majority of the voting rights. In addition to the parent company, twenty German subsidiaries and three foreign subsidiaries were fully consolidated in the HSBC Trinkaus & Burkhardt Group on the reporting date, an unchanged number compared to the previous year. The Group also comprises 2 (2004: 3) special funds as well as one domestic company which is consolidated for the first time according to the equity method. Like in the previous year, one foreign company of lesser importance was not included in the group of consolidated companies.

In the year under report, one domestic special fund which we transferred to a trust company within the scope of a Contractual Trust Arrangement to secure pension claims as plan assets, ceased to be part of the Group (cf. Note 15). Together with T-Systems International GmbH we set up the joint venture company International Transactions Services GmbH in 2005. At the balance sheet date, HSBC Trinkaus & Burkhardt held 51% of the shares and T-Systems 49% of the shares. In accordance with the Articles of Association, both partners each provide two members of the supervisory board and one managing director. Neither of the partners is in a preferential position with respect to strategic decisions. This ensures that all strategic decisions can only be taken jointly and by mutual agreement while the operative management lies with HSBC Trinkaus & Burkhardt. Overall, both partners exercise joint control over the company as a result of which the accounting rules applicable to joint ventures (IAS 31) are to be applied according to IFRS. The joint venture is carried in the balance sheet using the at-equity method.

A list of the consolidated companies and special funds is given in Note 60.

2 Consolidation principles

Group entities have been consolidated using the same method as in the previous year. Differences arising from the consolidation are calculated on the basis of the value of the new companies on the date of acquisition. Intra-Group claims and liabilities, pending liabilities, expenses and revenue have been offset against each other; furthermore, we have waived the elimination of intercompany profits of lesser importance.

In accordance with IFRS, the consolidated accounts do not contain special depreciation or valuations only permissible under tax regulations.

3 Foreign Currency Translation

For the purposes of foreign currency translation, pursuant to IAS 39 in conjunction with IAS 21, we make a distinction between monetary and non-monetary financial instruments. Revaluations resulting from currency translation of monetary items are always taken to profit and loss. In the case of non-monetary items, the treatment of currency results depends on the way in which other market price-related revaluation results of the corresponding category are treated.

Other assets and debts held in foreign currency are translated at the official reference rate of the European Central Bank, or other suitable spot rates on the last trading day of the year. Expenses or income from the translation of foreign currency are entered under the same item in the profit and loss account as the corresponding expenses or income from the underlying deal.

Balance sheet items of foreign subsidiaries are translated using the reporting date method; expenses and revenues are translated using the appropriate daily rate of exchange. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings. Translation gains or losses with and without an effect on current results had no significant impact in the 2005 financial year, as in the previous year.

4 Financial Instruments: Recognition and Valuation

Financial instruments are reported in the balance sheet for the first time when the Group becomes a contractual party to the arrangements of the financial instrument. A financial instrument is (partially) eliminated from the accounts as soon as the Group loses control over the contractual rights resulting from the financial instrument and no longer carries the relevant risks and opportunities associated with it.

Internal deals are not reported. To give an accurate picture in the profit and loss account, individual items and/or sub-items are modified through the congruent recognition of both sides of an internal deal. Where it is necessary to split hybrid financial instruments into the host contract and the derivative portion (embedded derivative), we have recorded the derivative separately in the balance sheet. The embedded derivatives are reported under financial assets held for trading and/or financial liabilities held for trading at market value.

All financial instruments are assigned to one of the following categories:

Financial assets	Financial liabilities
- Loans and receivables	- Financial liabilities held for trading
- Financial assets held for trading	- Other financial liabilities
- Held-to-maturity investments	
- Available-for-sale financial assets	

We have not currently allocated any financial instruments to the category "Held-to-maturity investments". We have also not made use of the fair value option.

Cash deals (regular way contracts) are recognised uniformly for all categories on the trade date (trade date accounting).

Changes in value compared to the amortised cost price in the available-for-sale category resulting from the subsequent valuation of financial assets are disclosed under Equity Capital with no effect on profits.

Impairments which lead in the wake of the complete or partial uncollectibility of a financial asset to a reduction in the fair value below the amortised cost price are assigned to the profit and loss account for the following categories:

- Loans and receivables	in risk provisions
- Available-for-sale (purchased receivables)	in risk provisions
- Available-for-sale (apart from purchased receivables)	in result on financial assets

Impairment tests are conducted on each balance sheet date.

5 *Loans and Advances*

Loans and advances to banks and customers are reported at amortised cost price. Discounts and premiums as the difference between amounts paid out and nominal value are deferred and reported under interest receivable or payable proportionately to the period. Purchased receivables that are allocated to available-for-sale financial assets are reported at market value. Impairments are not offset against the respective loans or advances, instead being openly charged to assets in the Risk Provisions item (cf. Note 6).

6 Risk provisions

A distinction is drawn with respect to risk provisions in the lending business between specific bad debt charges and general bad debt charges on a portfolio basis. All risk provisions for the lending business are reported on the asset side of the balance sheet. Risk provisions are created applying conservative standards.

Provisions for bad and doubtful debts in relation to on-balance sheet loans and advances, as well as provisions for contingent liabilities and commitments in respect of off-balance sheet transactions, are determined individually for each borrower. The Credit Department classifies all borrowers in one of seven categories using a Group-wide, standardised internal credit rating (see also the "Risk Management" section of the Group Management Report). The debtor's country of domicile is also taken into consideration. The credit ratings reflect the likelihood of a borrower defaulting on the relative credit exposure. In each case, provisions are created equal to the amount of the expected loss including, if need be, unpaid interest. The probable loss is assessed on the basis of the expected future payment flows for each commitment. We stop accruing interest at the latest when insolvency proceedings are opened.

Furthermore, we raise general bad debt charges on a portfolio basis. Provided there is no substantial objective evidence of an impairment of individual assets, these assets will be aggregated into a group with comparable default risks. A general bad debt charge will then be calculated for each of these portfolios on the basis of historical default probabilities.

Irrecoverable debts are written off against the bad debt charge if such exists, and/or removed from the books as a direct write-off to the profit and loss account.

7 Financial Assets and Financial Liabilities Held for Trading

The held-for-trading portfolio and all derivatives, unless they have a direct economic connection with items in financial assets, are reported in the balance sheet as financial assets/liabilities held for trading at fair values. Such assets and liabilities are not netted.

Alongside short sales of securities and derivatives, we allocate all financial instruments issued under the immediate responsibility of the trading divisions to financial liabilities held for trading.

The valuation of the financial instruments is based on prices and quotations from stock exchanges and other market participants. Owing to the broad product spectrum, the prices and quotations are differentiated as far as possible, for example by maturity, strike price etc. With these valuation parameters, the trading positions are valued in each case using a suitable valuation method.

Mainly standard valuation models are used as implemented in the respective trading software of external software providers. These are essentially the net present value method and option price models. The Bank has developed its own valuation routines for complex products in close collaboration with HSBC.

The selection of the data sources used as well as the allocation of the valuation parameters applied and the valuation methods to be used to the respect financial instruments is carried out independently of trading.

If it is not possible to monitor all main market parameters relevant for the valuation of a given product, the day-one profit for new business in this product will not be taken to profit or loss until maturity or closure of the item.

Trading profit in the profit and loss account includes all realised and unrealised gains and losses from trading activities. Trading-related interest and dividend income – shown as the difference between the interest and dividend revenue of trading positions and the refinancing interest – is included in trading profit.

8 Financial Assets

The Financial Assets balance sheet item comprises certain available-for-sale assets, as well as shares in an associated company. The available-for-sale assets comprise securities (including registered bonds), borrower's note loans and participations, all of which are held at fair value. Derivatives, where they have a direct economic connection with the Financial Asset items, are also reported under Financial Assets.

In the event of a reduction in valuation due to counterparty or sovereign risk (impairments), a write-down to the lower market value is made. If the grounds for the write-down subsequently cease to apply and no equity instrument is involved, a write-back is made to the amortised cost price at most.

By the end of the 2005 financial year, there were no significant restraints on proposals for assets related to the Financial Assets.

9 Property and Equipment

The Property and Equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment. The property and buildings are used almost entirely for our banking business. The valuation is carried out on the basis of the revaluation method at the fair value on the reporting date whereby the fair value of the property and buildings is always determined by external reports. The properties and buildings are valued separately within the scope of the report. The valuation method takes both the going rate and the income value of the property and buildings into consideration. The revaluation reserves are disclosed under Equity Capital with no effect on profits.

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. Regular depreciation is on a straight-line basis over the expected useful life of the asset. Throughout the Group the following useful lives are taken as a base in relation to planned depreciation:

Useful life in years	
Hardware	3 – 10
Other operating and business equipment	5 – 13

Diminution in value of property and buildings as well as diminution in value of hardware and other operational and business equipment which exceeds wear and tear-related depreciation is catered for by way of special write-offs. Should the initial reason for making a special write-off cease to exist, the value is readjusted. Special tax write-offs do not apply. In 2005 there was unplanned depreciation on property and buildings totalling € 0.5 million (2004: € 2.6 million) which is disclosed under other expenses (cf. Note 44). Profits/losses from the disposal of property and equipment totalling € 10.2 million (2004: € 0.2 million) were shown net in Other Income (cf. Note 43). Repairs, maintenance and other measures required for the upkeep of property and equipment are recorded as expenses in the financial year in which they were incurred.

10 Intangible Assets

The only items disclosed under Intangible Assets are standard software. Intangible assets are valued at their cost of acquisition and taking account of planned straight-line depreciation over the estimated useful life of three to ten years.

11 Leasing

Group companies act exclusively as lessees. All leasing contracts signed are operating lease agreements. In operating lease agreements, all risks and benefits attendant upon ownership remain with the lessor, which also carries the leased item on its balance sheet. For this reason, the Group treats lease payments as rental payments reported under Total Administrative Expenses.

12 Deposits, Customer Accounts, Debt Securities in Issue

These liabilities with the exception of financial liabilities held for trading are basically carried at repayment value. Where a discount or premium has been agreed this is taken into account. Non-interest-bearing paper, such as zero-coupon bonds, is reported at issuance value, grossed up by yield to the balance sheet date.

13 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. Actuarial profits and losses are disclosed under Equity Capital with no effect on profits. Within the scope of a Contractual Trust Arrangement (CTA) certain financial investments to secure pension obligations were transferred to a trust corporation and therefore qualified as plan assets within the meaning of IAS 19.7 (cf. Note 15). Provisions for taxes and uncertain liabilities are created in amounts equal to the anticipated claims.

14 Deferred Taxes

Deferred taxes are calculated using the temporary differences concept as per IAS 12. A comparison is made of the balance sheet valuations of assets and liabilities with the valuations that are used for the taxation of the Group company in question, and these differential valuations lead to temporary value differences. Deferred tax claims or deferred tax obligations must be created regardless of when the realignment of the valuations occurs. The deferred taxes are calculated according to the tax rates which, to the best of our current knowledge, 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 tax rebates and tax provisions will be adjusted accordingly.

Deferred tax rebate claims arising from the different valuation methods applied on the IFRS balance sheet and the balance sheet used for tax purposes may reduce the deferred tax liabilities posted as provisions on the liabilities side of the balance sheet, provided the conditions for netting exist.

15 Contractual Trust Arrangement

A CTA (Contractual Trust Arrangement) was set up with effect from 1 September 2005. Within the scope of this CTA certain financial investments to secure pension obligations were transferred to a trustee corporation. The assets transferred were qualified as a result as plan assets within the meaning of IAS 19.7. The fair value of the plan asset will be offset against provisions for pensions for the first time. With the elimination of the financial investments assigned to the plan assets from the accounts, their valuation reserve of € 7.2 million was realised.

Pension expenses are offset against the proportionate profit expected from the plan assets since the CTA was set up.

16 Share-based Payments

In accordance with IFRS 2 to be applied with effect from 1 January 2005, all shared-based remuneration instruments issued to employees are to be recorded in personnel expenses with an effect on profits.

The Group employees have the opportunity to participate in a stock option program offered by the parent company HSBC Holdings plc. This remuneration programme is graduated according to different blocking periods (3 and 5 years). The stock options are valued at the fair value and the personnel expenses derived from this – apportioned to the respective blocking period – reported in the profit and loss account.

17 *Reporting of income and expense*

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 from client accounts and deposits by banks as well as liabilities in certificate form and subordinated capital. The Bank reports dividends at the time of the legal creation of the dividend entitlement with an effect on profits. Income from joint ventures is recognised on an accrual basis.

Net fees and commissions essentially include income from securities, foreign exchange and derivatives business. Net fees and commissions have an effect on profits at the time the service is performed.

All unrealised and realised trading results are reported in the trading profit. This also includes interest and dividend income alongside price gains/losses. This is set against proportionate refinancing costs of the trading divisions.

18 *Changes in Accounting, Valuation and Consolidation Methods*

In order to increase the information content of reporting, the revaluation procedure for properties and buildings is used for the first time. The reserves resulting from the revaluation are disclosed in Equity Capital with no effect on profits.

The application of IFRS 2 share-based payments (cf. Note 16) was obligatory for the first time. Personnel expenses, to be taken into consideration for the first time, were only of minor significance.

We have applied IAS 19 Employee Benefits fully in the latest version this year. The main change resulting for the Bank is that the new arrangement according to IAS 19.93A-D enables the netting of actuarial gains and losses in Equity Capital with no effect on income while distribution over the average remaining working time of the employees has been carried out to date. This means that pension provisions in the amount of the actual obligation are now reported in the balance sheet for the first time whereas the unredeemed actuarial losses have only be given in the notes as a memorandum item so far. We have adjusted the year-earlier figures accordingly; the effects of the change in the accounting method were not significant.

In accordance with the new arrangement in IAS 1 minority interests are disclosed as a sub-heading of Equity Capital.

The new arrangements in IAS 39 envisage among other things that increased valuations of equity capital instruments with an effect on profits which are assigned to the available-for-sale portfolio are no longer permissible. These increased valuations are now disclosed under Equity Capital with no effect on profits. The effect of this new arrangement is € 2.7 million lower income from financial assets and a correspondingly higher valuation reserve for the year under report.

We have on the other hand dispensed with the early application of other standards. IFRS 7 Financial Instruments: Disclosures comprehensively revises reporting for financial instruments. No material changes in the balance sheet and in the profit and loss account are to be expected from a corresponding change in the reporting of financial instruments. We have also dispensed with the early application of the changes to IAS 1 resulting from IFRS 7 for the presentation of targets and methods of capital management. 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.

No further changes have been made in the accounting, valuation and consolidation methods compared to the previous year.

19 Noteworthy Events occurring after the Balance Sheet Date

No transactions materially affecting the asset, financial and revenue position of the company took place during the period between the balance sheet date and the date of preparation of these accounts.

Notes to the Consolidated Balance Sheet

20 Cash Reserves

€ million	31.12.2005	31.12.2004
Cash in hand	2.0	1.8
Balances with central banks	796.6	156.1
Total	**798.6**	**157.9**

Balances at central banks are held mainly with Deutsche Bundesbank and almost exclusively in euro. The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements. The strong rise compared to the previous year is reporting date related.

21 Loans and Advances to Banks

€ million	31.12.2005	31.12.2004
Laufende Konten	301.1	333.8
Geldmarktgeschäfte	2,822.2	1,912.1
davon Tagesgelder	63.6	0.0
davon Termingelder	2,758.6	1,912.1
Reverse Repos	1,251.6	144.4
Sonstige Forderungen	187.0	140.7
Total	**4,561.9**	**2,531.0**
davon an inländische Kreditinstitute	2,140.5	698.4
davon an ausländische Kreditinstitute	2,421.4	1,832.6

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The increase in loans and advances to banks is essentially the result of the growth in money market transactions and repos. The rise in money market transactions corresponds mainly with the increase in customer accounts. The funds received were invested largely in the form of term money on the interbank market. The increase in reverse repos corresponds above all with the rise in own issues reported under financial liabilities held for trading.

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22 Loans and Advances to Customers

€ million	31.12.2005	31.12.2004
Laufende Konten	860.9	754.0
Geldmarktgeschäfte	923.2	1,105.4
davon Tagesgelder	164.4	194.4
davon Termingelder	758.8	911.0
Kredite	680.4	725.4
Reverse Repos	70.9	0.0
Sonstige Forderungen	18.6	51.9
Total	**2,554.0**	**2,636.7**
davon an inländische Kunden	2,016.6	2,147.2
davon an ausländische Kunden	537.4	489.5

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

€ million	Affiliated Companies		Companies in which a share is held		Joint-Venture-Companies	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Loans and advances to banks	784.4	629.0	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	66.0	0.1	39.3	0.0
Total	**784.4**	**629.0**	**66.0**	**0.1**	**39.3**	**0.0**

23 Risk Provisions

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€ million	Wertberichtigungen auf Einzelforderungen		Wertberichtigungen auf Portfoliobasis		Total	
	2005	2004	2005	2004	2005	2004
As at 1.1.	43.6	52.6	8.7	7.4	52.3	60.0
Write-backs	11.9	5.4	2.2	0.0	14.1	5.4
Applications	3.6	9.6	0.0	0.0	3.6	9.6
Additions	4.5	6.0	0.0	1.3	4.5	7.3
Currency differences	0.3	0.0	0.0	0.0	0.3	0.0
As at 31.12.	**32.9**	**43.6**	**6.5**	**8.7**	**39.4**	**52.3**

Interest payments were suspended on € 8.0 million (2004: € 12.0 million) of total loans and advances. The loss in interest income for 2005 was € 0.6 million (2004: € 0.8 million).

Breakdown of Risk Provisions

€ million	31.12.2005	31.12.2004
Loans and advances to banks	0.0	0.0
Loans and advances to customers	26.1	30.0
Endorsement liabilities, bank guarantees, L/Cs and loan commitments	13.3	22.3
Aggregate risk provisions	**39.4**	**52.3**

Credit Volumes and Key Risk Provision Figures

Key figures	31.12.2005	31.12.2004
Loans and advances to customers	2,554.0	2,636.7
Loans and advances to banks	1,438.6	285.1
Bank guarantees and L/Cs	1,491.4	1,114.1
Irrevocable loan commitments	2,706.2	2,432.2
Credit volumes	**8,190.2**	**6,468.1**
Net risk provisions[1] € million	- 9.7	1.6
Addition rate in %	- 0.12	0.02
Aggregate risk provisions[2] € million	39.4	52.3
Provisioning rate in %	0.48	0.81

[1] Net risk provisions: Additions minus write-backs of bad debt charges and provisions plus net direct amortisations and recoveries of amounts previously written off

[2] Aggregate risk provisions: Total amount of bad debt charges and provisions

Borrowers in Germany accounted for € 286.0 million (2004: € 2,300.5 million) of all credit extended: foreign borrowers accounted for € 706.6 million (2004: € 621.3 million).

24 Financial Assets Held for Trading

€ million	31.12.2005	31.12.2004
Bonds and other fixed income securities	1,576.8	1,553.3
Public issuers	100.3	103.5
Other issuers	1,476.5	1,449.8
of which:		
listed	1,555.9	1,523.2
unlisted	20.9	30.1
Equities and other non-fixed-income securities	854.6	651.5
of which:		
listed	691.6	616.8
unlisted	163.0	34.7
Marketable assets	1,803.9	1,890.5
Positive market value of derivatives	2,235.3	2,120.3
of which:		
OTC derivatives	1,859.5	1,957.2
Listed derivatives	375.8	163.1
Total	**6,470.6**	**6,215.6**

The marketable assets are chiefly borrower's note loans and registered bonds. The increase in the positive market value of the derivatives corresponds to the increase in the negative market value of the derivatives (cf. Note 33). This item comprises the positive market values of all derivatives, except those having a direct economic connection with items disclosed under Financial Assets.

25 Financial Assets

Financial Assets comprise the Bank's strategic positions, and break down as follows:

€ million	31.12.2005	31.12.2004
Bonds and other fixed-income securities and interest rate derivative products	942.6	1,150.3
of which public issuers	303.0	342.8
Equities and equity derivatives	41.1	86.6
Investment certificates	220.4	118.3
Borrower's note loans	200.9	258.4
Participations	67.2	64.6
Total	**1,472.2**	**1,678.2**

Bonds and other fixed-income securities with a book value of € 208.5 million (2004: € 252.9 million) are due to mature in 2006.

All financial assets – with the exception of the at-equity consolidated joint venture – are "available for sale" in compliance with IAS 39. Available-for-sale holdings are valued at fair value in accordance with IAS 39.

The difference between the fair value and the amortised cost price is as follows:

€ million	31.12.2005	31.12.2004
Bonds and other fixed income securities	62.7	69.6
Equities	1.6	- 0.5
Investment certificates	15.8	6.8
Borrower's note loans	25.5	29.1
Participations	26.3	29.2
Total	**131.9**	**134.2**

The following table provides information on the development of the stake in the joint venture company International Transaction Services GmbH:

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€ million	
Buchwert 31.12.2004	**0.0**
Zugang aus den Anteilen an verbundenen Unternehmen	8.2
Ergebnisanteil des Geschäftsjahres 2005	0.9
Anteilige Zwischengewinneliminierung soweit auf den Buchwert des Joint Ventures entfallend	- 9.1
Buchwert 31.12.2005	**0.0**

The joint venture is consolidated at equity, the share of profits for the 2005 financial year is recognised in net interest income.

26 Property, Equipment and Intangible Assets

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€ million	Property and equipment	Software	Total
Acquisition costs 1.1.2005	60,1	57,3	117,4
Additions	9,0	5,5	14,5
Disposals	8,5	37,0	45,5
Acquisition costs 31.12.2005	60,6	25,8	86,4
Depreciation 1.1.2005	47,6	21,9	69,5
Planned depreciation	5,1	6,2	11,3
Unscheduled depreciation	0,0	0,0	0,0
Depreciation of disposals	7,5	10,2	17,7
Depreciation 31.12.2005	45,2	17,9	63,1
Residual book value 31.12.2005	**15,4**	**7,9**	**23,3**
Residual book value 31.12.2004	12,5	35,4	47,9

The decline in software is essentially the result of the sale of the licence for the GEOS securities settlement software as well as other software closely related to it to International Transaction Services GmbH.

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

27 Other Assets

Other Assets, as of 31.12.2005, included tax rebate claims of € 1.14 million (2004: € 2.2 million) for current taxes. As in the previous year, where the relevant requirements were met, deferred tax rebate claims were netted out against deferred tax obligations. The balance is carried as a provision (cf. Notes 14 and 34).

28 Subordinated Assets

€ million	31.12.2005	31.12.2004
Loans and advances to customers	0.1	0.5
Bonds and other fixed-income securities	58.6	24.1
other issuers	58.6	24.1
own issues	0.0	0.0
Profit participation certificates	9.5	8.2
other issuers	9.5	8.2
own issues	0.0	0.0
Total	**68.2**	**32.8**

29 Repurchase Transactions

At the end of the year securities with a total transaction value of € 179.9 million (2004: € 56.4 million) were sold under repurchase agreements. All securities reached the portfolio by way of repos or lending transactions.

30 Deposits by Banks

€ million	31.12.2005	31.12.2004
Laufende Konten	395.2	310.6
Geldmarktgeschäfte	795.1	496.7
davon Tagesgelder	29.2	70.0
davon Termingelder	765.9	426.7
Repos	184.3	57.9
Sonstige Verbindlichkeiten	50.1	48.4
Total	**1,424.7**	**913.6**
davon an inländische Kreditinstitute	380.8	473.6
davon an ausländische Kreditinstitute	1,043.9	440.0

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As of 31.12.2005, deposits by banks secured by real estate liens amounted to € 26.9 million (2004: € 27.2 million).

31 Customer Accounts

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€ million	31.12.2005	31.12.2004
Laufende Konten	3,454.2	2,800.0
Geldmarktgeschäfte	3,246.1	2,651.8
davon Tagesgelder	637.1	559.3
davon Termingelder	2,609.0	2,092.5
Spareinlagen	14.4	13.2
Sonstige Verbindlichkeiten	424.9	462.1
Total	**7,139.6**	**5,927.1**
davon an inländische Kunden	5,354.6	4,237.2
davon an ausländische Kunden	1,785.0	1,689.9

The increase in customer accounts is the result essentially of a strong inflow of funds from the fund business.

32 Liabilities in Certificate Form

€ million	31.12.2005	31.12.2004
Bonds in issue	34.6	10.7
Own acceptances and promissory notes in issue	10.7	6.2
Total	**45.3**	**16.9**

Liabilities include:

€ million	Affiliated companies		Companies in which a share is held		Joint-venture-companies	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Deposits by banks	651.6	321.3	0.0	0.0	0.0	0.0
Customer accounts	5.3	35.3	17.8	0.0	11.7	0.0
Own acceptances and promissory notes in issue	0.0	0.0	0.0	0.0	0.0	0.0
Total	**656.9**	**356.6**	**17.8**	**0.0**	**11.7**	**0.0**

33 Financial Liabilities Held for Trading

€ million	31.12.2005	31.12.2004
Negative market value of derivatives	2,274.7	2,226.4
Discount certificates, borrower's note loans, bonds and warrants in issue	3,588.1	2,705.9
Delivery commitments arising from short sales of securities	21.1	24.1
Total	**5,883.9**	**4,956.4**

The issue and placement of discount certificates and warrants, as well as of structured borrower's note loans and bonds, are the direct responsibility of the trading departments. These issues are accordingly recognised as 'Financial liabilities held for trading' pursuant to IAS 39, and valued at fair value. The increase in the negative market value of derivatives corresponds to the increase in the positive market value of the derivatives (cf. Note 24).

34 Provisions

€ million	31.12.2005	31.12.2004
Tax provisions	**136.5**	**146.5**
Current taxes	82.7	76.2
Deferred taxes	53.8	70.3
Other provisions	**88.2**	**220.5**
Provisions for pensions and similar obligations	21.2	172.9
Other provisions	67.0	47.6
Total	**224.7**	**367.0**

Provisions totalling € 153.2 million (2004: € 151.3 million) are due within one year.

Provisions for current taxes include anticipated payment obligations to the fiscal authorities, based on the tax balance sheets of the fully consolidated Group companies.

Deferred taxes are future tax charges and/or credits created in respect of differences between tax valuation methods and balance sheet valuation methods (cf. Note 45).

Deferred taxes are also to be calculated on the cumulative profits and losses reported directly in equity capital. During the 2005 financial year, these amounted to tax liabilities of € 38.0 million (2004: € 41.9 million) for financial instruments, tax liabilities of € 6.0 million for properties and buildings and tax claims of € 19.2 million (2004: € 10.3 million) for actuarial results . However, income tax outlay is not incurred as a result until the said reserve changes in such a way as to affect profits, in particular on realisation. Until then, the setting-up and writing-back of deferred taxes on the revaluation reserve for financial instruments is netted directly against equity capital. The previous year's figures have been adjusted in accordance with the accounting changes for pensions (cf. Notes 18 and 19).

Deferred taxation claims and obligations relate to the following items:

€ million	31.12.2005	31.12.2004
Asset-side deferred taxes	**31.9**	**34.6**
Provisions	30.6	33.5
Property and equipment	1.3	1.1
Liability-side deferred taxes	**85.7**	**104.9**
Financial assets	47.0	53.8
Assets held for trading*	28.7	46.3
Risk provisions	2.7	2.5
Property and equipment	7.0	2.0
Provisions	0.3	0.3
Balance of deferred taxes	**53.8**	**70.3**

* Balance of valuation differences arising from all trading activities

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.

In all plans, old-age, early retirement, invalidity as well as surviving dependent's pensions are granted. The amount of the pension is geared substantially to the employee's pensionable length of service and basic salary. In addition, for part of the benefit claims, the amount paid depends on the contribution assessment ceiling in the statutory pension scheme.

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. In addition, there are two endowments that bear 6 % and 7.5 % interest respectively.

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 addition to the current mortality tables:

%	31.12.2005	31.12.2004
Long-term base interest rate	4.0	4.5
Expected increase in salaries	3.0	2.5
Anticipated pension adjustment	2.0	1.5
Erwartete Inflationsrate	2.0	1.5
Erwarteter Anstieg der Beitragsbemessungsgrenze für die Sozialversicherung	2.5	2.5
Erwartete Rendite Planvermögen	3.0 – 6.0	-

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Due to lower yields from first-class fixed-interest industrial bonds, the base interest rate was reduced to 4.0 %.

Plan assets consist of a special fund as well as shares in a publicly-offered and a closed-end real estate fund. Furthermore, reinsurance cover claims arising from life insurance were assigned to the employees. The expected returns were determined individually between 3 % and 6 % based on the historical average performance of the fund. These estimates will be maintained for 2006 as there were no major deviations between the expected and actual returns in the funds in the year under report.

For the first time pension obligations also include obligations for anniversary payments which have been reported in other provisions to date. The previous year's figures have been adjusted accordingly. The actuarial value of all pension provisions therefore stood at a total of € 202.8 million (2004: € 172.9 million) on the balance sheet date. This is set against the fair value of the plan assets which amounted to € 181.6 million as of 31.12.2005. The cumulative actuarial losses which are recorded in equity capital with no effect on profits amounted to € 29.1 million after taxes (2004: € 15.7 million). The increase is the result above all of the reduction in the long-term interest rate calculated.

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Development of Pension Obligations from Performance-related Plans

€ million	2005	2004
Pensionsverpflichtungen zum 1.1.	**172.9**	**150.9**
Dienstzeitaufwand	3.6	3.2
Zinsaufwand	7.1	7.9
Gezahlte Pensionen	- 9.0	- 7.2
Zuführung Jubiläumsrückstellung	1.0	0.7
Sonstige Zuführungen und Transfer	3.6	0.0
Veränderung der versicherungsmathematischen Gewinne und Verluste	23.6	17.4
Pensionsverpflichtung zum 31.12.	**202.8**	**172.9**

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Development of Plan Assets

€ million	2005	2004
Fair Value des Planvermögens zum Zeitpunkt der Übertragung in das CTA	**177.2**	**0.0**
Erwartete Erträge aus dem Planvermögen	3.2	0.0
Veränderung der versicherungs-mathematischen Gewinne und Verluste	1.2	0.0
Fair Value des Planvermögens zum 31.12.	**181.6**	**0.0**

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Breakdown of Pension Obligations

€ million	2005	2004	2003	2002	2001
Barwert der Pensionsverpflichtungen, die nicht fondsfinanziert sind	**4.8**	**172.9**	**147.3**	**139.2**	**127.8**
Barwert der Pensionsverpflichtungen, die fondsfinanziert sind	198.0	0.0	0.0	0.0	0.0
Fair Value des Planvermögens	181.6	0.0	0.0	0.0	0.0
Planunterdeckung	**16.4**	**0.0**	**0.0**	**0.0**	**0.0**
Gesamte Pensionsverpflichtung	**21.2**	**172.9**	**147.3**	**139.2**	**127.8**
davon versicherungsmathematische Gewinne und Verluste					
aus Planvermögen	1.2	0.0	0.0	0.0	0.0
aus Pensionsverpflichtungen	- 48.9	- 25.3	- 7.9	- 5.1	0.0

The actual income from plan assets since the CTA was set up in 2005 amounted to € 4.4 million on the reporting date. It is expected that € 9.5 million will be paid into the plan in 2006.

Several group companies also pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e. V. These defined contribution plans cost € 3.7 million in 2005 (2004: € 3.7 million).

Other provisions comprise provisions for staff-related expenses and other provisions. Obligations from performance-related remuneration are essentially reported under provisions for staff-related expenses. Other provisions include provisions for anticipated losses and provisions for contingent liabilities.

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Movements in Provisions

€ million	As at 1.1.2005	Applications	Write-backs	Additions	Umbuchungen 2005[2]	As at 31.12.2005
Tax provisions	**146.5**	**45.7**	**29.7**	**65.4**	**0.0**	**136.5**
Current taxes	76.2	45.7	0.3	52.5	0.0	82.7
Taxes on income	74.0	45.2	0.3	52.2	0.0	80.7
Other taxes	2.2	0.5	0.0	0.3	0.0	2.0
Deferred taxes	70.3	0.0	29.4	12.9	0.0	53.8
Other provisions	**220.5**	**34.8**	**1.9**	**57.6**	**- 153.2**	**88.2**
Provisions for pensions and similar obligations[1]	172.9	10.2	0.0	11.7	- 153.2	21.2
Other provisions	47.6	24.6	1.9	45.9	0.0	67.0
Personnel	26.5	20.3	0.4	32.0	0.0	37.8
Miscellaneous provisions	21.1	4.3	1.5	13.9	0.0	29.2
Rückstellungen	**367.0**	**80.5**	**31.6**	**123.0**	**- 153.2**	**224.7**

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[1] This represents the net additions for legal rights to future pension payments.
[2] In der Umbuchungsspalte werden die Effekte aus der Errichtung des Contractual Trust Arrangement dargestellt.

35 Other Liabilities

Other liabilities essentially include tax liabilities of € 20.8 million (2004: € 20.8 million) and pre-paid income of € 15.2 million (2004: € 15.7 million).

Deferred interest payments of € 2.5 million (2004: € 2.5 million) on participatory capital and of € 7.8 million (2004: € 7.1 million) on subordinated liabilities are also reported under other liabilities.

36 Subordinated Capital

€ million	31.12.2005	31.12.2004
Subordinated liabilities	272.3	237.4
Participatory capital	35.8	35.8
Total	**308.1**	**273.2**

In the event of liquidation, insolvency, or proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against HSBC Trinkaus & Burkhardt KGaA have been met. All subordinated claims have equal priority. No subordinated liabilities can be terminated prematurely by creditors. Profit participation certificates can be terminated prematurely by HSBC Trinkaus & Burkhardt KGaA if there is a change in the tax framework, subject to two years' notice of termination.

Subordinated capital of € 296.6 million (2004: € 270.7 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to Section 10 para. 5a KWG.

For the 2005 financial year, interest payables amount to € 12.6 million (2005: € 11.1 million) on subordinated liabilities and to € 2.5 million (2004: € 4.5 million) on participatory capital

No bond issue accounts for over 10 % of all subordinated liabilities (2004: one bond issue of € 25.0 million).

Interest and Repayment of Subordinated Liabilities

Interest rate	Nominal value € million 31.12.2005	Nominal value € million 31.12.2004
4 % to < 5 %	68.0	33.0
5 % to < 6 %	137.1	137.1
6 % to < 7 %	10.2	10.2
7 % to < 8 %	2.6	2.6
8 % to < 9 %	10.2	10.2
Fixed interest rates	228.1	193.1
Variable rates	47.9	47.9
Total	**276.0**	**241.0**

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Repayment	Nominal value € million 31.12.2005	Nominal value € million 31.12.2004
bis 1 Jahr	10.2	0.0
über 1 Jahr bis 5 Jahre	82.6	92.8
über 5 Jahre	183.2	148.2
Total	**276.0**	**241.0**

37 Equity Capital

As of 31.12.2005 subscribed capital was unchanged at € 70.0 million. As before, this is divided into 26,100,100 shares of no par value. The capital reserve is unchanged at € 210.5 million.

A resolution passed at the Annual General Meeting on 3 June 2003 authorised the Managing Partners to raise share capital by € 23.0 million by 31 May 2008, with the consent of the Supervisory Board, through one or more issues of new bearer shares against payment in cash or in kind (authorised capital).

A contingent capital increase of up to € 13.5 million was realised through the issue of bearer shares. This contingent capital increase will only take place to the extent that the holders of conversion or option rights arising out of either convertible or option bonds or participatory certificates with conversion or option rights, issued no later than 31 May 2008, exercise their conversion or option rights (contingent capital).

Valuation Reserve for Financial Instruments

Change in the valuation reserve for financial instruments (available-for-sale reserve) after deferred taxes:

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€ million	2005	2004
Bewertungsreserve für Finanzinstrumente zum 1.1.	**92.3**	**75.6**
Disposals	- 30.8	- 9.2
Market value fluctuations	32.4	22.4
Impairments	0.0	3.5
Bewertungsreserve für Finanzinstrumente zum 31.12.	**93.9**	**92.3**

Equity Capital in accordance with KWG

The key figures required under bank regulatory law as laid down in Articles 10 and 10a of KWG in conjunction with Principle I were as follows:

Key figures pursuant to KWG	31.12.2005	31.12.2004
Equity funds € million	**827**	**806**
Core capital	525	530
Supplementary capital	302	276
Mandatory risk items € million	**7,191**	**6,439**
Risk assets	5,591	4,964
Market risk items	1,600	1,475
Capital ratios in %		
Capital ratio	11.5	12.5
Core capital ratio	7.3	8.2

As in earlier years, we waived the option to add unrealised reserves in buildings and property as supplementary capital to liable equity capital, as permitted under Section 10 (4a) KWG. At the reporting date, unrealised reserves in investment book securities as per Article 10 KWG totalled € 23.6 million.

Equity Capital in accordance with BIS

The following bank regulatory key figures are calculated according to the recommendations made by the Basel Committee on Banking Supervision at the Bank for International Settlements (BIS):

Key figures pursuant to BIS	31.12.2005	31.12.2004
Equity funds € million	**852**	**821**
Core capital	523	530
Supplementary capital	329	291
Mandatory risk items € million	**7,178**	**6,387**
Risk assets	6,603	5,887
Market risk items	575	500
Capital ratios %		
Capital ratio	11.9	12.9
Core capital ratio*	7.9	9.0

* The core capital ratio is based on risk-weighted assets.

These key figures were determined on the basis of internal calculations; they are published voluntarily without the submission of a report to the supervisory authorities.

Own Shares

At the end of 2005, no Group company held any shares in HSBC Trinkaus & Burkhardt KGaA. During 2005 41,175 own shares were bought at an average price of € 84.68 (2004: € 79.64) and sold at an average price of € 85.07 (2004: € 80.87). As in the previous year, the results of this trading in own shares had no material effect. The maximum holding of own shares was 0.08 % (2004: 0.02 %) of nominal capital.

Minority Interests

The minority interests reported for the previous year concern Grundstücksgesellschaft Trinkausstraße KG, which were repurchased in the year under report.

Notes to the Consolidated Profit and Loss Account

38 Net Interest Income

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€ million	2005	2004
Zinserträge	**218.3**	**174.1**
aus Forderungen an Kreditinstitute	68.5	25.4
Geldmarktgeschäfte	59.8	19.3
Andere verzinsliche Forderungen	8.7	6.1
aus Forderungen an Kunden	81.7	71.6
Geldmarktgeschäfte	35.3	31.8
Andere verzinsliche Forderungen	46.4	39.8
aus Finanzanlagen	68.1	77.1
Zinserträge	61.1	71.9
Dividendenerträge	1.7	2.6
Beteiligungserträge	4.4	2.6
Joint Venture	0.9	0.0
Zinsaufwendungen	**143.7**	**104.8**
aus Verbindlichkeiten gegenüber Kreditinstituten	10.4	10.8
Geldmarktgeschäfte	6.9	7.3
Repos	0.0	0.6
Andere verzinsliche Einlagen	3.5	2.9
aus Verbindlichkeiten gegenüber Kunden	116.2	74.8
Geldmarktgeschäfte	70.2	39.4
Andere verzinsliche Einlagen	46.0	35.4
aus Verbrieften Verbindlichkeiten	2.0	3.6
aus Nachrangkapital	15.1	15.6
Zinsüberschuss	**74.6**	**69.3**

Despite persistently low interest margins in the lending business, net interest income was up by 7.6 % compared to the previous year This increase is due in particular to growth in customer deposits which were invested mainly in the interbank market. The increase was so strong that it was even able to more than compensate the low interest income from financial assets owing to low interest rates and declining volumes.

39 Risk Provisions

€ million	2005	2004
Additions	4.5	7.3
Write-backs	14.1	5.4
Direct amortisations	0.0	0.0
Recoveries of amounts previously written off	0.1	0.3
Total	**- 9.7**	**1.6**

The positive trend in risk provisions continued in the year under report: the reason for this was on the one hand the favourable trend in individual commitments for which risk provisions had been set up in the past. On the other, we can thank our traditionally conservative stance with respect to entering into new loan relationships that risk provision additions could once again be lowered. The development of total balance sheet risk provisions can be seen in Note 23.

40 Net Fees and Commissions

€ million	2005	2004
Securities business	177.9	151.9
Foreign exchange and derivatives	32.3	25.9
International business	13.5	13.2
Corporate Finance	9.2	1.9
Lending	5.1	5.6
Payments	4.4	12.2
Property business	3.4	2.1
Issuing business	3.2	5.9
Other commission and fee-earning business	15.4	7.7
Total	**264.4**	**226.4**

Net fees and commissions rose € 38.0 million to € 264.4 million, thus once again making the greatest contribution to operating profits with a share of 63.8 %. The increase reflects the steadily growing number of profitable client relationships in the private banking and corporate banking business as well as the expansion of the product range for institutional clients. Confidence slowly returning to the financial markets led to higher transaction numbers and volumes compared to the previous year. Securities commission therefore increased by € 26.0 million or 17.1% to € 177.9 million.

There was also a favourable trend in the foreign exchange and derivatives business in the year under report. The successful placement of a structured participatory right issue – H.E.A.T Mezzanine I-2005 – in the issuing and structuring business is to be pointed out in particular. This structure enabled selected medium-sized companies to gain access to the capital market through the raising of hybrid capital. The launch of a further real estate fund, Trinkaus Europa Immobilienfonds Nr. 11 Dortmund-Essen KG, was reflected above all in fees and commissions from the real estate business. The Corporate Finance division was not able to repeat its good year-earlier result which had risen in particular as a result of larger mergers & acquisitions.

The principal items of the other commission and fee-earning business were the placement and management of private equity investments as well as the implementation of a value protection concept.

Overall, net fees and commissions exceeded net interest income by a factor of 3.5 (2004: 3.3).

The administrative and agency services provided to third parties chiefly comprise asset and portfolio management, the administration of investment funds, and corporate finance services.

41 Trading Profit

€ million	2005	2004
Equity and equity/index-related derivatives	46.1	33.7
Bonds and interest rate derivatives	18.1	16.2
Foreign exchange	10.1	4.5
Total	**74.3**	**54.4**

With an increase of almost € 20.0 million or 36.6%, trading profit not only clearly exceeded our goal for the 2005 financial year. At the same time, this is the best trading profit since the conversion to IFRS in 1997.

Equities and equity derivative trading contributed to this development above all with an increase of € 12.4 million. But foreign exchange trading also exceeded our expectations, more than doubling the result compared to the previous year. Although the prior-year result was already on a high level, the interest-related trading segment recorded earnings growth as well, therefore also contributing to the good trading profit.

42 Total Administrative Expenses

€ million	2005	2004
Staff costs	186,7	162,7
Wages and salaries	158,1	131,1
Social security contributions	15,8	15,9
Retirement benefits	12,8	15,7
Other administrative expenses	88,4	73,5
Depreciation	11,3	13,1
Total	**286,4**	**249,3**

Total administrative expenses were up by 14.9 % compared to the previous year to € 286.4 million. The higher average number of employees on the one hand and the adjustment of performance-related remuneration to the positive trend in net income on the other were the main reasons for the increase in wages and salaries and therefore in personnel expenses.

In addition to higher IT costs, the work in connection with transferring the securities settlement system to International Transaction Services GmbH, our joint venture with T-Systems International GmbH, led to significant growth in other administrative expenses.

Irrespective of this, we managed to further lower the cost-income ratio to 60.8 % after 66.8 % in 2004.

Old-age benefits and support break down as follows:

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€ million	2005	2004
Aufwendungen für leistungsorientierte Pläne	7.5	11.1
davon: Laufender Dienstzeitaufwand	3.6	3.2
davon: Zinsaufwand	7.1	7.9
davon: Erwartete Erträge aus dem Planvermögen	- 3.2	0.0
Aufwendungen für beitragsorientierte Pläne	3.7	3.7
Zuführung zu Jubiläumsrückstellungen	1.0	0.7
Andere Aufwendungen für Altersversorgung	0.6	0.2
Total	**12.8**	**15.7**

43 Other Income

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€ million	2005	2004
Finanzanlageergebnis	49.1	21.8
Gewinne/Verluste aus dem Abgang von Sachanlagevermögen per saldo	10.2	0.2
Other operating income	6.7	5.8
Total	**66.0**	**27.8**

The result on financial assets comprises in particular profits from the sale of financial assets and from changes in the consolidated group. € 38.6 million fell upon equities and participating interests, € 2.8 million on investment certificates and € 8.4 million on fixed-interest securities.

The profits/losses from the sale of plant, property and equipment include on balance in particular the proportionate profit from the sale of our GEOS securities settlement system license to International Transaction Services GmbH of € 10.2 million.

Other operating income essentially includes € 2.9 million from composition payments and € 1.6 million from rental income (2004: € 1.7 million) as well as € 0.7 million from the writing-back of other provisions (2004: € 0.5 million).

44 Other Expenses

€ million	2005	2004
Sonstige betriebliche Aufwendungen	5.9	2.0
Other operating expenses	2.3	2.6
Other taxes	0.0	0.2
Total	**8.2**	**4.8**

Other expenses essentially comprise ? 5.8 million resulting from ex gratia payments and additions to provisions and unscheduled real estate depreciation of € 0.5 million based on an independent valuation.

45 Income Tax

€ million	2005	2004
Current taxes	86.5	27.3
Deferred taxes arising from changes in temporary valuation method differences	- 10.0	16.5
Deferred taxes arising from changes to tax rates	0.0	0.0
Total	**76.5**	**43.8**

Like in the previous year, the corporation tax rate for profits received and distributed will be 25 % in 2005. A solidarity surcharge of 5.5 % will once again be levied on corporation income tax payable, making the effective rate of corporation tax 26.4 %, unchanged compared to 2004. Taking trade income tax into account, combined taxes on income for 2005 were unchanged at 40.4 %. This rate was also used in calculating deferred taxes.

The following table explains the relationship between imputed income tax on net income before tax and actual reported taxes on income:

€ million	2005	2004
Net income before tax	194.4	122.2
Imputed income tax on the year's net income before tax	**78.5**	**49.3**
Variation of tax rate on income from foreign companies	- 2.7	- 1.9
Effect of tax-free income and of non-deductible expenses pursuant to Article 8 b KStG	- 7.4	- 7.6
Other permanent differences	4.2	2.4
Others	3.9	1.6
Reported tax on income	**76.5**	**43.8**

46 Development of the Profit and Loss Account

Calculation of Operating Profit

€ million	2005	2004	Change € million	Change %
Interest receivable	218.3	174.1	44.2	25.4
Interest payable	143.7	104.8	38.9	37.1
Net interest income	74.6	69.3	5.3	7.6
Risk provisions	- 9.7	1.6	- 11.3	-
Net interest income after risk provisions	84.3	67.7	16.6	24.5
Fees and commissions receivable	415.7	324.0	91.7	28.3
Fees and commissions payable	151.3	97.6	53.7	55.0
Net fees and commissions	264.4	226.4	38.0	16.8
Trading profit	74.3	54.4	19.9	36.6
Wages and salaries	158.1	131.1	27.0	20.6
Social security contributions and retirement benefits	28.6	31.6	- 3.0	- 9.5
Other administrative expenses	99.7	86.6	13.1	15.1
Total administrative expenses	286.4	249.3	37.1	14.9
Net other operating expenses and income	0.8	3.8	- 3.0	- 78.9
Operating profit	**137.4**	**103.0**	**34.4**	**33.4**
Other income/expenses (net)	57.0	19.2	37.8	> 100
Net pre-tax income	**194.4**	**122.2**	**72.2**	**59.1**
Taxes on income	76.5	43.8	32.7	74.7
Net profit	**117.9**	**78.4**	**39.5**	**50.4**

Operating profit includes the operating income and operating expenses posted under Other Income (Note 43) and Other Expenses (Note 44), respectively. A breakdown of operating profit by business segment is shown in the Segmental Reporting (Note 50).

47 Earnings Per Share

	2005	2004
Net income € million	117.9	78.4
Profit attributable to minority shareholders € million	0.0	0.0
Net income after tax and minorities € million	117.9	78.4
Average number of shares in circulation, million	26.1	26.1
Earnings per share in €	**4.52**	**3.00**
Diluted earnings per share in €	**4.52**	**3.00**

As in 2004, there were no option and conversion rights outstanding for the purchase of shares in the 2005 financial year. There was therefore no calculable dilution effect. This means that for the past two financial years, basic earnings per share have equalled diluted earnings per share.

48 Origin and Application of Value Added

Origin of value added € million	2005	2004
Operating income	413.3	350.1
Other operating income	0.8	3.8
Other administrative costs	- 99.7	- 86.6
Risk provisions	- 9.7	1.6
Net other income/expenses less other taxes	57.0	19.4
Value added	**381.1**	**285.1**

Operating income is made up of net interest income, net fees and commissions, and trading profit.

Verwendung der Wertschöpfung	2005		2004	
	in Mio €	in %	in Mio €	in %
Mitarbeiter (Personalaufwand)	186,7	49,0	162,7	57,1
Staat (Steuern)	76,5	20,1	44,0	15,4
Aktionäre (Dividende)	65,3	17,1	58,7	20,6
Minderheiten (Ergebnisanteil Dritter)	0,0	0,0	0,0	0,0
Unternehmen (Rücklagen/Gewinnvortrag)	52,6	13,8	19,7	6,9
Wertschöpfung	**381,1**	**100,0**	**285,1**	**100,0**

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The average value added per employee in the past financial year was € 236,000 as against € 180,000 (not including the net balance of other income and expenses) the year before.

Notes to the Cash Flow Statement

49 Position and Movements in Cash and Cash Equivalents

IAS 7 (Cashflow 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 fees and commissions, trading profit and the balance of other operating expenses and income, minus total administrative expenses and regular risk provisions.

The summary item 'Other adjustments net' in the cash flow statement essentially comprises the valuation results of the financial instruments in the trading portfolio at the reporting date, net additions to deferred taxes, changes in tax rebate claims as well as income tax paid, interest and dividends received minus interest paid.

Cash and Cash Equivalents

As in 2004, the cash and cash equivalents of € 798.6 million (2004: 157.9 million) correspond to the 'Cash reserve balance sheet' item, which comprises cash in hand plus balances at central banks. The cash and cash equivalents are denominated almost exclusively in euro. No major valuation effects resulting from exchange rate changes were to be taken into consideration.

Cash Flow from Operating Activities

Consolidated cash flows from operating activities are presented according to the indirect method, which derives them from net income.

The Group's net income of € 117.9 million (2004: € 78.4 million) is the input figure for the cash flow statement. The gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to € - 9.2 million (2004: € 75.4 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash Flow from Investing Activities

Spending on property and equipment and intangible assets totalled € 16.2 million in the 2005 financial year (2004: € 16.8 million). As in 2004, the bulk of this expenditure went on upgrading our IT capacities. Sales of property and equipment and intangible assets realised € 38.1 million (2004: € 0.9 million) for the Group. The principle income in this respect came from the sale of the GEOS securities settlement software licence to our joint venture company International Transaction Services GmbH. In 2005, sales and purchases of financial investment instruments realised a net profit of € 28.9 million (2004: € 63.9 million).

Cash Flow from Financing Activities

Cash flow from financing activities includes the dividend of € 58.7 million for the the 2004 financial year (previous year: € 45.7 million) paid by HSBC Trinkaus & Burkhardt KGaA in 2005.

Other Notes

50 Segment Reporting

The IAS 14 segmental reporting prepared by HSBC Trinkaus & Burkhardt provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions and should help them gain a more differentiated picture of the economic performance of a company.

The segmental reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits. This is a major component of our internal management information system (MIS). The MIS also serves as one of the Bank's central controlling and monitoring tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis. For this reason, we have chosen to define these divisions as the primary segments.

Hence, the segmental reporting covers the following business areas, which are essentially structured to meet the needs of our clients:

Private Banking

HSBC Trinkaus & Burkhardt's private banking division offers clients extensive advisory and management services for larger private portfolios. In addition to general portfolio management and advisory services, this involves special services such as advice on asset structuring, execution of wills and real estate advisory services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

Corporate Banking

The corporate banking division of HSBC Trinkaus & Burkhardt offers large and medium-sized companies a wide spectrum of professional services tailored to meet individual needs. Besides various lending and deposit services, we provide a range of sophisticated specialised services such as interest and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients

HSBC Trinkaus & Burkhardt provides its institutional clients, namely fund-gathering institutions, with major investment needs such as insurance companies, pension and investment funds and also banks, with a full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients.

Proprietary Trading

Our proprietary trading division deals with the transactions in securities, financial instruments, foreign exchange and derivatives that HSBC Trinkaus & Burkhardt undertakes on its own account, and in its own name. Through its proprietary trading activities, therefore, the Bank itself participates in the market, acting as a market-maker whilst seeking to generate additional profits by pursuing clearly defined trading goals.

Central Divisions/Consolidation

In addition to overhead costs that cannot be unambiguously allocated to specific business divisions, Central Divisions/Consolidation includes profits from selected strategic asset and liability items that cannot be directly attributed to one particular division. As in the previous year, this segment includes in addition the earnings contributions from securities processing for financial services providers. It also includes adjustments to the consolidated results.

The segmental reporting by division for 2005 and 2004 is as follows:

€ million		Private Banking	Corporate Banking	Institu-tional Clients	Proprietary Trading	Central Divisions/ Consoli-dation	Total
Net Interest Income	2005	10.8	27.3	1.6	2.9	32.0	74.6
	2004	9.2	27.2	1.4	1.3	30.2	69.3
Risk provisions	2005	0.8	3.8	0.2	0.1	- 14.6	- 9.7
	2004	1.0	7.6	0.4	0.1	- 7.5	1.6
Net Interest Income after risk provisions	2005	10.0	23.5	1.4	2.8	46.6	84.3
	2004	8.2	19.6	1.0	1.2	37.7	67.7
Net fees and commissions	2005	71.2	72.4	98.6	4.4	17.8	264.4
	2004	56.7	69.8	80.5	0.6	18.8	226.4
Trading profit	2005	0.0	0.2	4.2	75.5	- 5.6	74.3
	2004	0.0	0.3	4.0	46.7	3.4	54.4
Income after risk provisions	2005	81.2	96.1	104.2	82.7	58.8	423.0
	2004	64.9	89.7	85.5	48.5	59.9	348.5
Total administrative expenses	2005	42.8	49.8	53.5	31.5	108.8	286.4
	2004	40.5	46.7	40.8	23.4	97.9	249.3
Net other operating expenses and income	2005					0.8	0.8
	2004					3.8	3.8
Operating profit	**2005**	**38.4**	**46.3**	**50.7**	**51.2**	**- 49.2**	**137.4**
	2004	**24.4**	**43.0**	**44.7**	**25.1**	**- 34.2**	**103.0**
Other income/expenses (net)	2005	0.0				57.0	57.0
	2004	6.3				12.9	19.2
Net pre-tax income	2005	38.4	46.3	50.7	51.2	7.8	194.4
	2004	30.7	43.0	44.7	25.1	- 21.3	122.2
Change from previous year, %		25.1	7.7	13.4	> 100		59.1

Segmental income is broken down into net interest income, net fees and commissions and trading profit. The difference between the standardised risk-related costs charged to the business segments (credit rating-related surcharges on drawings and on limits not utilised) and the risk costs in the profit and loss account is allocated to the Central Divisions. Wherever possible, total administrative expenses are charged to divisions according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions. As was already the case in 2004, all four business divisions of the Bank were able to further improve their results in a year-on-year comparison in 2005, again impressively showing the balanced structure of the Bank's business activities.

The improvement in earnings in the Private Banking segment was the result of the significant expansion of business in the securities business with equities and fixed-interest securities on the basis of a substantial increase in volumes. Thanks to this positive trend, the proportionate profit of € 6.3 million from the sale of the stake in HSBC Guyerzeller Bank in 2004 was more than compensated.

The strong pressure on margins in interest-related operations prevented stronger earnings growth in the Corporate Banking division despite the marked increase in the volume of deposits. Instead, the corporate banking business was able to generate higher fees and commissions from the origination and placement of fixed-interest securities and asset backed securities.

The Institutional Clients division was very successful in particular in asset management and in business with structured products. The sale of products of the HSBC Group led to a further increase in the result. Proprietary trading benefited from the favourable market environment and was able to record the strongest year-on-year increase. Apart from particularly successful equity derivative trading, fixed income and foreign exchange trading also reported significant growth in profits while equity trading did quite match the high level recorded in 2004.

The high Other Income was the result among other things of special factors within the scope of the transfer of securities settlement to the newly-founded company International Transaction Services GmbH (ITS) as well as the setting-up of a Contractual Trust Arrangement to secure pension obligations.

The significant increase in total administrative expenses compared the previous year is mainly attributable to higher IT costs, personnel increases in selected areas as a necessary prerequisite for future earnings growth as well as higher performance-related remuneration owing to the strong improvement in profits. Moreover, the preparations for transferring securities settlement to ITS, which has been run since October as a joint venture with T-Systems International GmbH, led to notable cost growth in the Central Divisions. In the wake of this outsourcing, the staff employed in this segment also moved to ITS, which is consolidated at equity, explaining the decline in the number of employees compared to the previous year-end.

		Private Banking	Corporate Banking	Institutional Clients	Proprietary Trading	Central Divisions/ Consolidation	Total	Adjustments	Reporting date
Cost-income ratio,	2005	52.2	49.8	51.2	38.0		60.8		60.8
%	2004	56.1	48.0	47.5	48.1		66.8		66.8
Assets*,	2005	800.0	1,581.0	980.9	3,969.6	7,388.4	14,719.9	338.8	15,058.7
€ million	2004	730.0	1,715.0	757.9	3,309.5	5,550.7	12,063.1	998.4	13,061.5
Liabilities*,	2005	2,476.0	2,446.0	824.1	2,656.5	5,177.7	13,580.3	913.2	14,493.5
€ million	2004	1,916.0	1,814.0	791.4	2,143.7	4,102.5	10,767.6	1,046.4	11,814.0
Mandatory risk items*,	2005	1,095.1	2,858.0	345.3	191.0	2,708.3	7,197.7	- 6.7	7,191.0
€ million	2004	945.8	2,636.4	312.5	239.5	2,258.0	6,392.2	46.8	6,439.0
Equity capital allocated									
on-balance sheet*,	2005	132.8	220.9	95.3	87.6	99.4	636.0	208.5	844.5
€ million	2004	120.9	205.4	89.2	85.6	124.6	625.7	161.8	787.5
Staff	2005	179	180	177	81	910	1,527		1,527
	2004	184	165	166	85	1,021	1,621		1,621
Pre-tax return	2005	28.9	21.0	53.2	58.5		30.6		
on equity, %	2004	25.4	20.9	50.1	29.3		19.5		

*Annual average.

Assets, liabilities, mandatory risk items and allocated on-balance-sheet equity capital are calculated using annual averages obtained from MIS. The differences from year-end reporting date values are shown in the adjustments column.

The cost-income ratio reveals the ratio of total administrative expenses to income before risk provisions. It measures the division's cost efficiency. This figure improved year-on-year in the Proprietary Trading and Private Banking divisions as a result of their more than proportionate increase in profits. On the other hand, it deteriorated in the Institutional Clients and Corporate Banking divisions as there was a higher percentage increase in costs than in profits.

The capital resources of the business segments are made up of a base amount, which is identical for each segment, plus a variable portion calculated according to the amount of mandatory risk items in a given segment.

The assignment of assets, liabilities, risk assets and balance sheet equity follows the MIS-specific assignment of customers to each segment.

The rise in loans and advances to customers in the Private Banking and Institutional Clients divisions was accompanied by the expansion of mandatory risk items. Despite the reduction in loans and advances to customers, mandatory risk items increased with respect to Corporate Banking as there was a substantial rise in undrawn loan commitments in particular. In Proprietary Trading, the number of market risk items tying up equity capital was reduced.

In line with movements in operating profits, there was a partly notable improvement in equity yield capital in all segments, in some cases significantly exceeding the 20 % mark before tax on a direct costing basis.

The secondary segmental reporting criterion is allocation to regions as determined by the country of incorporation of the Group company concerned. This reveals the following picture of our business activities:

€ million		Germany	Luxem-bourg	Others	Consoli-dation	Total
Net Interest Income	2005	64.1	10.5	0.0	0.0	74.6
	2004	52.1	17.2	0.0	0.0	69.3
Risk provisions	2005	- 10.5	0.8	0.0	0.0	- 9.7
	2004	2.1	- 0.5	0.0	0.0	1.6
Net fees and commissions	2005	243.1	18.8	2.5	0.0	264.4
	2004	208.5	15.6	2.3	0.0	226.4
Trading profit	2005	72.2	2.1	0.0	0.0	74.3
	2004	53.4	1.0	0.0	0.0	54.4
Total administrative expenses	2005	270.7	15.0	0.7	0.0	286.4
	2004	235.0	13.7	0.6	0.0	249.3
Net income before tax	2005	176.2	16.4	1.8	0.0	194.4
	2004	100.1	20.4	1.7	0.0	122.2
Cost: income ratio, %	2005	62.0	46.5	29.2	-	60.8
	2004	69.9	40.9	25.1	-	66.8
Mandatory risk items	31.12.2005	7,031.0	568.0	0.0	- 408.0	7,191.0
	31.12.2004	6,299.0	569.0	0.0	- 429.0	6,439.0
Balance sheet total	31.12.2005	15,143.1	1,712.9	2.1	- 906.7	15,951.4
	31.12.2004	12,749.5	1,604.3	1.7	- 1,032.4	13,323.1

51 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 7.

Assets/liabilities held for trading as well as financial assets are reported in the balance sheet at market value, i.e., book value is equivalent to market value.

For other items in the balance sheet, the following differences are noted between fair value and reported book value.

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€ million	31.12.2005 Fair value	Book value
Verbindlichkeiten gegenüber Kreditinstituten (aus der Bewertung langfristig aufgenommener Schuldscheindarlehen)	1.427,5	1.424,7
Verbindlichkeiten gegenüber Kunden (aus der Bewertung langfristig aufgenommener Schuldscheindarlehen)	7.145,2	7.139,6
Verbriefte Verbindlichkeiten	46,5	45,3
Subordinated capital	330,1	308,1

Interbank funds, amounts receivable from customers and deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant.

52 Foreign Currency

On 31.12.2005 assets denominated in foreign currency totalled € 1,833.0 million (2004: € 1,974.7 million) and the corresponding liabilities totalled € 2,232.7 million (2004: € 1,886.4 million). As in 2004, the bulk of these assets and liabilities were in US dollars.

53 Details of Significant Concentrations of Assets and Liabilities

The Group's lending and deposit activities are well diversified, although a certain amount of concentration in the German Blue-Chip segment is emerging, as can be seen from the breakdown of loans to companies by size. There is a good spread of sectoral risks and as at 31.12.2005 there were no significant large exposures which could lead to a concentration of assets, liabilities or off-balance sheet business.

Breakdown of credit volumes (as defined by the German Banking Act) by type of loan

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Cash loans	7,972.7	48.9	6,777.8	50.5
Reverse Repos	1,322.5	8.1	144.4	1.1
Securities	3,295.0	20.2	3,119.3	23.2
Derivatives	1,773.8	10.9	1,726.5	12.9
Bank guarantees and L/Cs	1,491.4	9.1	1,114.1	8.3
Securities lending	384.3	2.4	473.2	3.5
Participations	67.2	0.4	64.6	0.5
Total	**16,306.9**	**100.0**	**13,419.9**	**100.0**

Breakdown of credit volumes by sector

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Banks and financial institutions	11,095.4	68.1	7,467.4	55.6
Companies and economically independent professionals	3,852.5	23.6	3,436.9	25.6
Public sector	920.4	5.6	1,792.3	13.4
Economically non-independent private clients	438.6	2.7	723.3	5.4
Total	**16,306.9**	**100.0**	**13,419.9**	**100.0**

Breakdown of credit volumes to companies and economically independent professionals by region

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Germany	3,031.4	78.7	2,939.2	85.5
Other European Union (including Norway and Switzerland)	633.8	16.5	337.6	9.8
Rest of Europe	3.9	0.1	5.5	0.2
Africa	5.4	0.1	9.1	0.3
North America	89.1	2.3	79.6	2.3
South America	63.9	1.7	62.1	1.8
Asia	23.6	0.6	3.6	0.1
Oceania	1.4	0.0	0.2	0.0
Total	**3,852.5**	**100.0**	**3,436.9**	**100.0**

Breakdown of credit volumes to companies and economically independent professionals by size

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Up to € 500,000	67.8	1.7	0.0	0.0
>€ 500,000 to € 2,500,000	296.6	7.7	125.2	3.6
>€ 2,500,000 to € 5,000,000	342.5	8.9	500.5	14.6
>€ 5,000,000 to € 10,000,000	580.4	15.1	512.4	14.9
>€ 10,000,000 to € 25,000,000	1,012.0	26.3	722.1	21.0
>€ 25,000,000 to € 82.634,000* (previous year: € 80.553,000	680.0	17.6	890.3	25.9
Over € 82.634,000* (previous year: € 80.553,000*)	873.2	22.7	686.4	20.0
Total	**3,852.5**	**100.0**	**3,436.9**	**100.0**

* Large exposure credit limit as per German Banking Act.

Breakdown of credit volumes to companies and economically independent professionals by credit rating

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Credit Rating 1 – 3	3,692.9	95.9	3,248.4	94.5
Credit Rating 4 – 5	105.8	2.7	139.9	4.1
Credit Rating 6 – 7	53.8	1.4	48.6	1.4
Total	**3,852.5**	**100.0**	**3,436.9**	**100.0**

(cf. explanations in the section of this report entitled 'Risk Management' in the group management report)

54 *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. In accordance with Article 36 of the German Directive on Accounting for Banks and Financial Services Institutions, the analysis of derivatives business follows the recommendations of the Accounting Committee of the National Association of German Banks. Pursuant to international standards, the stated market values of deals represent the replacement values on the balance sheet date that may arise in the event of a default of all counterparties, regardless of their individual credit rating. No account is taken of enforceable netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these products.

Breakdown of the derivatives business by nominal amount

€ million		Nominal amounts with a residual maturity of			Nominal amounts	Nominal amounts
		up to one year	over 1 year to 5 years	over 5 years	2005 total	2004 total
OTC-	FRAs	0	0	0	0	124
products	Interest rate swaps	4,320	15,466	12,054	31,840	35,254
	Interest rate options – purchases	1,545	2,791	3,264	7,600	7,109
	Interest rate options – sales	485	2,445	5,017	7,947	8,308
	Forward transactions	649	0	0	649	198
Exchange-	Interest rate futures	0	0	5,365	5,365	4,937
traded products	Interest rate options	0	0	0	0	18
Interest rate business		**6,999**	**20,702**	**25,700**	**53,401**	**55,948**
OTC-	Forward exchange contracts	19,547	1,162	0	20,709	15,660
products	Cross-currency swaps	4	35	0	39	1,305
	Currency options – purchases	2,148	648	0	2,796	1,488
	Currency options – sales	2,204	630	0	2,834	273
Exchange-						
traded products	Foreign exchange futures	0	0	22	22	44
Currency business		**23,903**	**2,475**	**22**	**26,400**	**18,770**
OTC-	Equity/index options – purchases	8	0	0	8	44
products	Equity/index options – sales	1	3	0	4	3
Exchange-	Equity/index futures	0	0	854	854	428
traded products	Equity/index options	4,708	4,201	143	9,052	5,425
Equity/index business		**4,717**	**4,204**	**997**	**9,918**	**5,900**
OTC-	Credit default swaps – purchases	10	10	0	20	15
products	Credit default swaps – sales	10	10	0	20	10
Credit business		**20**	**20**	**0**	**40**	**25**
Total financial derivatives		**35,639**	**27,401**	**26,719**	**89,759**	**80,643**

Breakdown of the derivatives business by market value

€ million		Positive market with a residual maturity of			Positive market		Negative market	
		up to one year	over 1 year to 5 years	over 5 years	2005 total	2004 total	2005 total	2004 total
OTC-	FRAs	0	0	0	0	0	0	0
products	Interest rate swaps	41	427	697	1,165	1,191	1,158	1,283
	Interest rate options – purchases	21	74	172	267	206	0	0
	Interest rate options – sales	0	0	0	0	0	320	254
	Forward transactions	0	0	0	0	0	0	0
Interest rate business		**62**	**501**	**869**	**1,432**	**1,397**	**1,478**	**1,537**
OTC-	Forward exchange contracts	302	25	0	327	460	331	487
products	Cross-currency swaps	0	2	0	2	6	1	34
	Currency options – purchases	72	22	0	94	79	0	0
	Currency options – sales	0	0	0	0	0	87	2
Currency business		**374**	**49**	**0**	**423**	**545**	**419**	**523**
OTC-	Equity/index options – purchases	5	0	0	5	15	0	0
products	Equity/index options – sales	0	0	0	0	0	34	11
Equity/index business		**5**	**0**	**0**	**5**	**15**	**34**	**11**
OTC-	Credit default swaps – purchases	0	0	0	0	0	0	0
products	Credit default swaps – sales	0	0	0	0	0	0	0
Credit business		**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial derivatives total		**441**	**550**	**869**	**1,860**	**1,957**	**1,931**	**2,071**

Breakdown of positive market values by counterparty

The replacement costs of OTC derivatives from Proprietary Trading are broken down by counterparty in order to analyse possible default scenarios:

		31.12.2005		31.12.2004	
		€ million	%	€ million	%
OECD	Central governments	0	0.0	0	0.0
	Banks	1,560	83.9	1,660	84.8
	Financial institutions	108	5.8	73	3.7
	Others	190	10.2	218	11.2
Non-OECD	Central governments	0	0.0	0	0.0
	Banks	0	0.0	4	0.2
	Financial institutions	0	0.0	0	0.0
	Others	2	0.1	2	0.1
Total		**1,860**	**100.0**	**1,957**	**100.0**

55 Market Risk

HSBC Trinkaus & Burkhardt calculates market risk using a value-at-risk approach. This calculates, on the basis of an assumed holding period of ten trading days and a confidence level of 99 %, the following value-at-risk figures:

€ million	31.12.2005	31.12.2004
Interest rate contracts	4.4	5.3
Currency business	0.3	0.7
Equity and index-linked business	4.9	3.1
Total potential market risk	**6.1**	**6.1**

Potential market risk in relation to all market risk categories is calculated according to a standardised internal model. The fact that risk-reducing correlations are taken into account means that the total potential market risk is less than the sum of the risks in each risk category.

Further information on the management of market risks can also be found in the section of this report entitled 'Risk Management' in the group management report.

56 Maturity Profile by Residual Term

Receivables, € million		Up to 3 months	> 3 months to 1 year	> 1 year	Total
Term loans and advances to banks	31.12.2005	4,138.4	58.7	0.1	**4,197.2**
	31.12.2004	2,162.2	34.7	0.3	**2,197.2**
Loans and advances to customers	31.12.2005	1,923.2	479.4	151.4	**2,554.0**
	31.12.2004	2,058.7	426.8	151.2	**2,636.7**
Total	**31.12.2005**	**6,061.6**	**538.1**	**151.5**	**6,751.2**
	31.12.2004	**4,220.9**	**461.5**	**151.5**	**4,833.9**

Liabilities, € million		Up to 3 months	> 3 months to 1 year	> 1 year	Total
Term deposits by banks	31.12.2005	917.4	24.6	58.3	**1,000.3**
	31.12.2004	473.0	15.5	44.5	**533.0**
Other term deposits	31.12.2005	2,609.5	178.9	245.5	**3,033.9**
by customers	31.12.2004	2,070.8	200.7	283.1	**2,554.6**
Debt securities in issue	31.12.2005	10.7	24.6	10.0	**45.3**
	31.12.2004	5.0	1.2	10.7	**16.9**
Subordinated capital	31.12.2005	10.2	0.0	297.9	**308.1**
	31.12.2004	0.0	0.0	273.2	**273.2**
Total	**31.12.2005**	**3,547.8**	**228.1**	**611.7**	**4,387.6**
	31.12.2004	**2,548.8**	**217.4**	**611.5**	**3,377.7**

57 Contingent Liabilities and Other Obligations

€ million	31.12.2005	31.12.2004
Contingent liabilities	**1,491.4**	**1,114.1**
from discounted bills of exchange	0.0	0.0
from guarantees and indemnity agreements	1,491.4	1,114.1
Other obligations	**2,706.2**	**2,432.2**
irrevocable loan commitments	2,706.2	2,432.2
Total	**4,197.6**	**3,546.3**

As before, there are no obligations in respect of unpaid share capital relating to investments. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-konsortialbank GmbH was also unchanged, at € 3.7 million. This is linked to a guarantee for the fulfilment of further contribution obligations directly enforceable on the other shareholders, who are members of the National Association of German Banks (Bundesverband deutscher Banken e. V. ~ BdB).

The obligation still exists for our joint venture company International Transaction Services GmbH to fully compensate any net loss for the year which may arise in the 2006 and 2007 financial years.

On the balance sheet date, commitments arising from leasing and rental contracts totalled € 27.2 million (2004: € 35.9 million):

€ million	31.12.2005	31.12.2004
1 year or less	16.7	17.9
of which: leasing	6.4	6.8
> 1 year to 5 years	9.7	16.9
of which: leasing	0.7	7.1
Over 5 years	0.8	1.1
of which: leasing	0.0	0.0
Total commitments from rental and leasing contracts	**27.2**	**35.9**

58 Assets Pledged as Collateral

Securities with a nominal value of € 1,052.5 million (2004: € 392.8 million) were deposited as collateral for transactions on Eurex and for securities lending transactions.

On the balance sheet date bonds with a nominal value of € 1,637.3 million (2004: € 1,272.7 million) were available to secure peak rediscounting facilities.

59 Trust Activities

IAS 30.55 stipulates that trust activities may not be shown on a bank's balance sheet. As an indication of the extent of our potential liability, the following table shows the value of off-balance-sheet trust activities:

€ million	31.12.2005	31.12.2004
Trust assets	**361.3**	**314.0**
Loans and advances to banks	5.0	0.1
Loans and advances to customers	159.3	189.1
Participations	197.0	124.8
Trust liabilities	**361.3**	**314.0**
Deposits by banks	83.9	63.3
Customer accounts	277.4	250.7

60 Participating Interests

HSBC Trinkaus & Burkhardt KGaA holds a direct or indirect stake of at least 20 % in the following mainly fully-consolidated companies:

Company	Domicile	Share of equity capital in %	Company's total equity capital € 000s	Net earnings in 2005 in € 000s
Banks and bank-like companies				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	18,646
HSBC Trinkaus & Burkhardt (International) SA	Luxemburg	100.0	91,255	10,914
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	2,051	1,476
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	16,048	2,788
International Transaction Services GmbH[1]	Düsseldorf	51.0	16,534	1,534
HSBC Trinkaus Capital Management GmbH	Düsseldorf	100.0	2,601	13,410
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	3,231	802
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	- 122
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	108	98
HSBC Trinkaus Privatimmobilien GmbH	Düsseldorf	100.0	25	- 47
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	22	4
Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH	Düsseldorf	100.0	117	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	66	4
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	4
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	53	3
Trinkaus Canada 1 GP Ltd.[2]	Toronto	100.0	3	2
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	288	1,826
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,765	1,735
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,340	494
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,742	288
Dr. Helfer Verwaltungsgebäude Luxembourg KG	Düsseldorf	100.0	1,019	252
Other companies				
HSBC Bond Portfolio Geschäftsführungs GmbH	Frankfurt a.M.	100.0	76	15
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	3,533	2
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	3
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	24	1

[1] at-equity konsolidiert
[2] wegen Geringfügigkeit nicht konsolidiert

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HSBC Trinkaus & Burkhardt KGaA also has an indirect 17.9 % holding in Sino AG, Düsseldorf, which has total equity of € 3,192,000 and net income of € 614,000 (to 30.9.2004 due to the company's unusual financial year).

61 Letter of Comfort

HSBC Trinkaus & Burkhardt KGaA undertakes to ensure that all fully consolidated companies of the Group are in a position to fulfil their contractual obligations. For a complete list of these companies, please refer to the table of participating interests held by HSBC Trinkaus & Burkhardt KGaA given in Note 60 above.

Moreover, HSBC Trinkaus & Burkhardt KGaA regularly indemnifies the current general partners (if individual legal persons) of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided the managing partners are natural persons.

62 Staff

Annual average	2005	2004
Staff outside Germany	128	125
Staff in Germany	1,485	1,462
Total (including trainees)	**1,613**	**1,587**
of whom:		
Women	706	688
Mitarbeiter	907	899

63 Auditors' fees

The following fees for the auditors of the consolidated accounts, KMPG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were reported as expense:

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€ million	2005	2004
Abschlussprüfungen	0.7	0.7
Steuerberatungsleistungen	0.1	0.1
Sonstige Leistungen	0.3	0.1
Total	**1.1**	**0.9**

64 Business Relationships with Companies and Persons Defined as "Connected Parties"

HSBC Trinkaus & Burkhardt KGaA has cooperation and agency agreements with various companies of the HSBC Group. The consolidated profit and loss account includes € 39.8 million of income and € 2.3 million of expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. The transactions were completed at terms in line with the market and are typically unsecured.

Emoluments of and Loans & Advances to Members of the Executive Bodies of HSBC Trinkaus & Burkhardt

The emoluments of the Managing Partners in 2005 totalled € 20,685,868.62 including a compensation payment for a retired Managing Partner. The amounts comprise contractually-agreed fixed and performance-related remuneration components. Of these, 89.0 % of the total emoluments were attributable to performance-related components. Reserves totalling € 2,938,493.00 (2004: € 2,604,504.00) have been made to cover pension commitments to the Managing Partners and their surviving dependents.

The payments made to members of the Supervisory Board and the Shareholders' Committee follow the provisions of the Articles of Association, which are the same for both bodies. They are primarily performance-related and are linked to percentage dividend rates. Of the total emoluments received by the Supervisory Board and the Shareholders' Committee, 94.1 % is performance-related. Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 30 May 2006, the emoluments of the Supervisory Board for 2005 will be € 976,140.00 and the emoluments of the Shareholders' Committee € 325,380.00. The members of the Advisory Board received emoluments totalling € 322,200.00

During 2005, fees were paid to four members of the Supervisory Board for consultancy services provided. These amounted to € 23,200.00, € 53,378.88, € 73,950.00 and € 92,800.00.

None of the Managing Partners acquired shares in HSBC Trinkaus & Burkhardt KGaA over the course of 2005. No subscription rights or other share-based remuneration were granted. The employees' representatives in the Supervisory Board basically have the right to participate in the share option programme for employees described under Note 16. Minor use was made of this right.

There were no advances and loans to members of the Managing Committee and the Supervisory Board as at 31 December 2005 (2004: € 424,789.11 and € 15,806.89, respectively). Like in the previous year, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and their surviving dependents and its legal predecessor Trinkaus & Burkhardt KG totalled € 4,535,343.94 (2004: € 4,018,450.14). Reserves totalling € 41,348,060.00 (2004: € 43,192,273.00) have been created to cover pension commitments to former Managing Partners and their surviving dependents.

65 Statement on the German Corporate Governance Code pursuant to Section 151 AktG

The Managing Partners and the Supervisory Board of the Bank have submitted their statement on the recommendations of the 'Commission of the German Corporate Governance Code' and made this permanently available to shareholders, pursuant to Article 161 of the Stock Corporation Act (AktG).

66 Mandates held by Managing Partners

The Managing Partners of HSBC Trinkaus & Burkhardt KGaA sit on the following
a) statutory supervisory boards and
b) comparable management bodies:

Andreas Schmitz	a) Börsenrat der Börse Düsseldorf, Düsseldorf b) HSBC Trinkaus Capital Management GmbH, Düsseldorf [1] L-Bank, Karlsruhe
Paul Hagen	a) Börsenrat der EUREX Deutschland, Frankfurt a. M. b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (stellv. Vorsitzender) [1] HSBC Trinkaus Investment Managers SA, Luxembourg [1] Falke-Bank AG i.L., Düsseldorf Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1] International Transaction Services GmbH, Düsseldorf (Vorsitzender) [1] RWE Trading GmbH, Essen
Dr. Olaf Huth	a) none b) HSBC Guyerzeller Bank AG, Zürich [2] HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1] HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Chairman) [1] HSBC Trinkaus Capital Management GmbH, Düsseldorf [1] HSBC Trinkaus Investment Managers SA, Luxembourg (Deputy Chairman) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Carola Gräfin von Schmettow	a) Börsenrat der Frankfurter Wertpapierbörse, Frankfurt a. M. DBV Winterthur Lebensversicherung, Wiesbaden b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1] HSBC Trinkaus Capital Management GmbH, Düsseldorf (Chair) [1] HSBC Trinkaus Investment Managers SA, Luxembourg (Chair) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chair) [1] Member of the Board der folgenden Gesellschaft: HSBC Asset Management (Europe) SA, Paris [2]

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

67 Mandates held by Other Employees

The following Group employees sit on
a) statutory supervisory boards and
b) comparable management bodies listed below:

Dr. Rudolf Apenbrink	a) none b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Norbert Böhm	a) none b) HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf (Chairman) [1]
Jürgen Berg	a) none b) H.E.A.T Mezzanine I-2005 SA, Luxembourg (Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg [1] Member of the Board der folgenden Gesellschaft: HSBC Trinkaus Investment Management Ltd., Hong Kong [1]
Bernd Franke	a) none b) Member of the Board der folgenden Gesellschaft: HSBC Securities Services SA, Luxembourg [2]
Dr. Detlef Irmen	a) none b) International Transaction Services GmbH, Düsseldorf [1]
Manfred Krause	a) none b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Jörg Meier	a) none b) H.E.A.T Mezzanine I-2005 SA, Luxembourg HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1]
Bernd Naujoks	a) none b) HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf (Deputy Chairman) [1]
Hans-Joachim Rosteck	a) none b) H.E.A.T Mezzanine I-2005 SA, Luxembourg HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1] HSBC Trinkaus Investment Managers SA, Luxembourg [1] Member of the Board der folgenden Gesellschaft: HSBC Trinkaus Investment Management Ltd., Hong Kong [1]
Ulrich W. Schwittay	a) none b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1]

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

68 Other Mandates held by Supervisory Board Members

The members of our Supervisory Board also sit on

a) the statutory supervisory boards and

b) the comparable management bodies listed below:

Dr. Sieghardt Rometsch	a) APCOA Parking AG, Stuttgart (Deputy Chairman) Lanxess AG, Leverkusen b) Düsseldorfer Universitätsklinikum, Düsseldorf HSBC Bank Polska SA, Warschau [2] Management Partner GmbH, Stuttgart Member of the Board der folgenden Gesellschaft: HSBC Private Banking Holdings (Suisse) SA, Geneva[2]
Stephen Green	a) none b) Member of the Board bei folgenden Gesellschaften: Grupo Financiero HSBC, SA de C.V., Mexico [2] HSBC Asset Management Limited, London (Chairman) [2] HSBC Bank Middle East Limited, Jersey [2] HSBC Bank plc, London (Chairman) [2] HSBC Bank USA, National Association, Delaware (Chairman)[2] HSBC France, Paris [2] HSBC Group Investment Businesses Limited, London (Chairman) [2] HSBC Holdings plc, London [2] HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC, Mexico [2] HSBC North America Inc., New York (Deputy Chairman) [2] HSBC Private Banking Holdings (Suisse) SA, Geneva[2] HSBC USA Inc., Baltimore (Chairman) [2] The Bank of Bermuda Limited, Hamilton The Hong Kong & Shanghai Banking Corporation Limited, Hong Kong SAR [2]
Dr. h.c. Ludwig Georg Braun	a) Stihl AG, Waiblingen b) Aesculap AG & Co. KG, Tuttlingen B. Braun Austria Ges.m.b.H., Wien [3] B. Braun Holding AG, Emmenbrücken [3] B. Braun Medical SA, Barcelona [3] B. Braun Medical S.A.S., Boulogne-Billancourt [3] B. Braun Milano S.p.A., Mailand [3] IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman) Landesbank Hessen-Thüringen Girozentrale, Frankfurt a.M./Erfurt Universitätsklinikum Gießen und Marburg, Gießen Wilh. Werhahn, Neuss Member of the Board der folgenden Gesellschaft: B. Braun of America Inc., Bethlehem [3]

Charles-Henri Filippi	a) none b) Board member of the following companies: Altadis SA, Madrid HSBC Asset Management Holdings (France), Paris [2] HSBC Bank plc, London [2] HSBC France, Paris (Chairman) [2] HSBC Holdings plc, London [2] HSBC Private Bank France, Paris [2]
Wolfgang Haupt	a) Pfleiderer AG, Neumarkt Trinkaus Private Equity Pool I GmbH & Co KGaA, Düsseldorf (Chairman) Trinkaus Private Equity M 3 GmbH & Co KGaA, Düsseldorf (Chairman) Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman) b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Chairman) [1]
Harold Hörauf	a) Börse Düsseldorf AG, Düsseldorf (Chairman) Börsenrat der Börse Düsseldorf, Düsseldorf b) BVV Versorgungskasse des Bankgewerbes e.V., Berlin BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Dr. Otto Graf Lambsdorff	a) D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG, Munich Deutsche Lufthansa AG, Frankfurt a. M./Cologne Iveco Magirus AG, Ulm (Chairman) b) none
Professor Dr. Ulrich Lehner	a) E.ON AG, Düsseldorf b) Novartis AG, Basel Board member of the following companies: Ecolab Inc., St. Paul The DIAL Company, Scottsdale (Chairman)
Dr. Christoph Niemann	a) Baader Wertpapierhandelsbank AG, München b) none
Dietmar Sauer	a) Hochtief Construction AG, Essen Karlsruher Lebensversicherung AG, Karlsruhe M+W Zander AG, Stuttgart Wieland-Werke AG, Ulm Wüstenrot & Württembergische AG, Stuttgart Wüstenrot Holding AG, Ludwigsburg ZF Friedrichshafen AG, Friedrichshafen b) none

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

Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt KGaA for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB, is the responsibility of the Managing Partners. 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 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 management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section § 315a para. HGB and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 23 February 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Kügler
German Public Auditor	German Public Auditor

Supervisory Board Report

Management

In four meetings conducted during the 2005 financial year, the Supervisory Board received comprehensive reports from the Managing Partners on the development of business at the Bank, its major subsidiaries and individual business areas. At each meeting, the reporting covered the current results of the financial year to date in comparison with the budget and the results of the corresponding period of the previous year. The reports to the Supervisory Board also addressed significant events of the 2005 financial year, particularly the out-sourcing of the Bank's securities settlement activities to the International Transaction Services GmbH, a joint venture of the Bank with T-Systems International GmbH, as well as the formation of a Contractual Trust Arrangement (CTA) assuming the payment obligations of the Bank under pension schemes and certain anniversary bonus schemes against the transfer of selected assets as collateral for these obligations. The Board paid particular attention to the effects of developments on the interest rate and capital markets, to the development of the Bank's revenues, and to risk policy and risk control systems in the lending and trading business.

In one meeting, the Supervisory Board focused exclusively on the analysis and discussion of the strategic positioning of the Bank, its business policy for 2006, and its principles of corporate planning for the 2006 business year. The Board was provided with the information on the planning principles and objectives for the 2006 plan necessary for its deliberations and decision-making process. In particular, the Board was advised of the profit targets of the various business areas, about the anticipated development of personnel costs and other operating costs, and about planned investments. This was based on the Managing Partners' economic assumptions for the business year and on expectations for the development of interest rates and of the capital markets.

The external auditors attended two Board meetings: that in which the financial statements for the previous year including the Bank's profitability in terms of return on equity were discussed, and that in which the decision was to be taken on the appointment of the external auditors for the audit of the annual financial statements and of the consolidated accounts. Prior to mandating the auditors, the Board requested and was given detailed information on the objectives, methods and key points of emphasis of the audit plan of the external auditors.

Credit, Audit, Compliance

The Supervisory Board established a “Credit Committee of the Supervisory Board” comprising three Supervisory Board members. The Committee met four times during the 2005 financial year and decided on connected party loans by the Bank to individuals as well as to companies.

In addition, there are two committees of the Shareholders’ Committee: the “Credit Working Committee of the Shareholders’ Committee” and the “Audit Committee”. The “Credit Working Committee” comprises three members; it takes decisions on loans and on credit limits within the Bank’s lending business, and on the necessary approval levels.

The “Audit Committee of the Shareholders’ Committee” comprises three members; this Committee met three times in 2005 and will meet four times a year from 2006 on. These meetings are attended by the Managing Partners and twice by the external auditors. The Committee reviews the results of internal and external audits, and receives information on the observance of compliance rules and regulations as well as on measures taken to combat money-laundering.

Corporate Governance

In its meeting on 16 February 2005, the Supervisory Board discussed the German Corporate Governance Code of the bank. The Declaration of Conformity under Section 161 of the Stock Corporation Act (AktG) was issued. The divergences from the Corporate Governance Code of the Government Commission were listed and commented on in the 2005 Corporate Governance Report.

In its efficiency examination, the Supervisory Board concluded that in view of the personal professional qualifications of individual members of its body, it had no concerns as to their suitability. Its efficiency as an executive body of the Bank under company law was examined through a comparison of the findings of the external auditors with the information presented by individual Managing Partners in several meetings of the Supervisory Board and with the measures resolved.

The information given to the Board satisfied all legal requirements and, with regard in particular to the depth of information provided on risks and to the supplementary presentations on new products, services and the activities of selected business areas, exceeded the requirements of the Stock Corporation Act (AktG). The Supervisory Board therefore concluded that comprehensive information had been provided.

The external auditors' report contained no findings which had not previously been reported on and examined in Supervisory Board meetings. The Supervisory Board therefore concluded that it had carried out its business efficiently in 2005.

During the 2005 financial year, no conflicts of interest arose between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board satisfied itself of the independence of the external Auditors and the individual persons acting on their behalf.

The current version of the Corporate Governance Code and the Declaration of Conformity were published on the Bank's internet website in February 2006.

Annual Financial Statements

The Board has examined and approved the annual financial statements of the Bank for the year ended 31 December 2005, as well as the 2005 Management Report and the proposal of the Managing Partners for the appropriation of profit. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf (KPMG) were appointed as external auditors to the Bank and its company group at the Annual General Meeting on 7 June 2005. On 27 September 2005, they were mandated by the Board to audit the annual financial statements and consolidated accounts. KPMG have audited the Bank's books, its annual accounts and the Management Report for the year ended 31 December 2005 and have given their unqualified audit opinion. The audit report was submitted to the Board; no objections were raised.

The consolidated accounts for the year ended 31 December 2005 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code. These accounts were also audited by KPMG and given an unqualified opinion. The consolidated accounts and the audit report were submitted to the Board and approved by it.

Dealings with Affiliated Companies

In compliance with Section 312 AktG, the Managing Partners have prepared a report on the Bank's dealings with affiliated companies for the 2005 financial year. The auditors have issued the following certification of this report under article 313 of the above Law: “Following our statutory examination and evaluation performed in accordance with professional standards, we hereby confirm that (1) the factual content of the report is correct; and (2) the payments made by the Company in the transactions listed in the report were not inappropriately high.” The Board examined and noted with approval this report.

Transformation of the Legal Form into a Stock Corporation

In its meeting of 30 November 2005, the Supervisory Board had discussed at length the intention of the Managing Partners and of HSBC Holdings plc as the majority shareholder to propose to the Annual General Meeting in 2006 the transformation of the legal form of the Bank from its present structure as a Partnership limited by Shares (KGaA) into a stock corporation (AG). The Supervisory Board had an external renowned lawyer present and explained the structural differences between the legal forms of a KGaA and an AG and discussed in detail the strategic objectives and considerations underlying the proposal for such transformation of the legal form. As a result of its examinations and deliberations, the members of the Supervisory Board had unanimously agreed to submit together with the Managing Partners the joint proposal to the Annual General Meeting in May 2006 to transform the legal form of the Bank into a Stock Corporation.

Organisational Changes on the Supervisory Board

There were no changes on the Supervisory Board.

Thanks

The Supervisory Board thanks the Managing Partners for their open and trustworthy cooperation. In particular, it is grateful to the staff, whose work in the past year made an essential contribution to the Bank’s success.

Düsseldorf, April 2006

The Supervisory Board

Dr. Sieghardt Rometsch
Chairman

Corporate Governance

2005 Corporate Governance Report

Corporate Governance as part of our corporate culture

The German Corporate Governance Code, as adopted by us in our Declaration of Compliance, is integral to the corporate culture of HSBC Trinkaus & Burkhardt. An open information policy toward our shareholders, clear management structures, transparent financial accounting and the strict avoidance of conflicts of interest are all indispensable conditions for winning and retaining the trust of our investors and business partners on domestic and international financial markets.

The special nature of the Partnership Limited by Shares

HSBC Trinkaus & Burkhardt is a bank with the legal form of a Partnership Limited by Shares (KGaA). It is run by personally liable Managing Partners, and overseen by the Supervisory Board. The Supervisory Board has 15 members, five of whom are chosen from the workforce in accordance with the 1952 German Works Constitution Act (Betriebsverfassungsgesetz).

As well as the Supervisory Board with its monitoring function, the Bank has a further executive body in the Shareholders' Committee. The Shareholders' Committee is elected by the Annual General Meeting of Shareholders, and has four members. It represents the limited liability shareholders and the company itself vis-á-vis the Managing Partners, in particular with regard to the negotiation of their contracts of employment.

This special corporate legal structure of HSBC Trinkaus & Burkhardt and our character as a private bank necessitate adjustments to the Corporate Governance Code, which is drawn up to fit the model of the large quoted public limited company. Thus our legal form as a KGaA and our Articles of Association (Satzung) have the effect not only of replacing the management board with an executive body composed of Managing Partners, but also (and most importantly) of requiring the modification of clauses 5.1.2 and 5.3.2 of the recommendations of the Government Commission in relation to the assignment of constitutional authorities of our executive bodies; these do not involve any material divergence from the fundamental regulatory model set out in the Corporate Governance Code.

Based on our experience to date, we have decided only to adopt the recommendations of the Government Commission contained in clause 5.4.3 of the Corporate Governance Code in the version of 2 June 2005 subject to the proviso that Supervisory Board elections only take place as individual elections if an application is made by a shareholder to this effect at the Annual General Meeting concerned. This upholds all protective interests at the same time as preserving the necessary flexibility. We have decided further not to apply the ruling in sentence 3 of this clause, according to which proposals for candidates for the Chairman of the Supervisory Board are to be announced to the shareholders. Re-elections of the Supervisory Board take place at the Bank for the entire Supervisory Board in each case for which a standard closing date for the election period applies according to our Articles of Association. In the event of the complete re-election of the Supervisory Board, it meets after the Annual General Meeting at which it was elected for a constituent meeting and elects the Chairman from its members. The announcement of the proposed candidates for the new Supervisory Board by the old Board would in our view be an unjustifiable burden on the new Supervisory Board in its discretionary powers. Even though the newly-elected Supervisory Board is not legally bound to the candidates announced by the old Board, any deviation by the new Supervisory Board would be associated with negative publicity which could harm the company.

There is no limitation on the number of former Managing Partners who may sit on our Supervisory Board, nor any limitation on the age of Supervisory Board members; to this extent we have not adopted the recommendations of the Government Commission contained in clauses 5.4.1 and 5.4.2 of the Corporate Governance Code. We have taken this decision in light of the Bank's status as a private bank whose most fundamental strategic characteristic is the long-term and personal nature of the Managing Partners' client relation-ships. Their transition from the executive management of the Bank to the Supervisory Board prevents the disruption of client relationships and ensures continuity, for which the former Managing Partners also stand surety as members of the Supervisory Board.

We have chosen not to limit the age of Supervisory Board members because we take the view that to do so would needlessly reduce our flexibility. A fixed age limit would oblige us to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, is still indispensable to the Bank.

Remuneration structures

In line with our Articles of Association the remuneration of the Managing Partners is laid down in contracts of employment which the Bank, represented by the Shareholders' Committee, concludes individually with the various Managing Partners.

The remuneration of the Managing Partners comprises a fixed salary element plus profit participation. There are no share option schemes or similar structures with long-term incentive effects.

The fixed salary element is determined by reference to current market standards for banks in Germany.

The aggregate share of profit distributed to the Managing Partners is limited by the Articles of Association. The structure of profit participation is detailed in the Managing Partner's individual employment contracts, and depends on the size of a given year's consolidated net profit according to IFRS, less a defined return on equity and any profit on disposal of specific investments.

Diverging from the recommendations contained in clause 4.2.4 of the Corporate Governance Code, the Bank reports the remuneration of all Managing Partners in the annual report and accounts under Note 64 as a single aggregate amount. In so doing we satisfy investors' legitimate interests in the provision of relevant capital market information until a further statutory provision comes into force.

For the same reasons, under Note 64 in our annual report and accounts we also report the remuneration of Supervisory Board and Shareholders' Committee members as respective aggregate amounts. The remuneration structure for members of the Supervisory Board and of the Shareholders' Committee is governed in the Articles of Association and is identical for both bodies. Each Supervisory Board and Shareholders' Committee member is thereby entitled to receive fixed remuneration plus variable remuneration of ? 1,000 for every 5 cents of dividend distributed per share in excess of 10 cents per share. The chairman receives double this sum and the deputy chairman 50% more. Membership and chairmanship of the committees of the Supervisory Board and Shareholders' Committee attract no special remuneration, since any such payments are not provided for in the Articles of Association. Other remuneration paid or benefits granted to members of the Supervisory Board or of the Shareholders' Committee (for instance consultancy fees) are reported individually, though without mentioning actual names in order to preserve due privacy. Accordingly we have adopted a modified form of the Government Commission recommendation contained in clause 5.4.5 of the Corporate Governance Code.

Information, Disclosure and Transparency

Clauses 6.3 and 6.8 of the Corporate Governance Code contain recommendations on the equal treatment of shareholders with regard to communication and the disclosure of information about the company. For purposes of clarity and to avoid misinterpretation, we apply this recommendation exclusively in relation to facts relevant to our share price. We do not define expressions of opinion by members of executive bodies in the press and other media, or background discussions with financial analysts and rating agencies, as "new facts" or "information" within the meaning of clauses 6.3 and 6.8 of the Corporate Governance Code.

As before, we shall publish our consolidated financial accounts and our interim reports with the deadlines prescribed by law. In the interest of greater timing flexibility concerning the production of our reports, we shall not adopt the Government Commission recommendations on tightening of deadlines contained in clause 7.1.2 of the Corporate Governance Code.

The list of third party companies in which the Bank holds a material interest is published in our annual report under Note 60. We have adopted the recommendation on publication contained in clause 7.1.4 of the Corporate Governance Code, subject to the proviso that we only report those investments whose amount exceeds a legal disclosure threshold.

Reportable dealings in HSBC Trinkaus & Burkhardt shares or in rights to those shares under Section 15 a of the Securities Trading Law.

Reportable dealings in HSBC Trinkaus & Burkhardt shares or in rights to those shares under Section 15 a of the Securities Trading Law

No dealings in HSBC Trinkaus & Burkhardt shares, or in rights to those shares which require reporting in accordance with Section 15 of the Securities Trading Act or Clause 6.6 of the Corporate Governance Code, were carried out in 2005 by persons obliged to report such dealings.

Day-to-day monitoring

We have entrusted the independent Compliance function of our Bank with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2005 financial year no infringements of these rules were identified, in terms of the form, content or spirit of the Corporate Governance Code, and our external auditors have confirmed this finding.

Düsseldorf, February 2006

For the Managing Partners

Andreas Schmitz
Chairman

For the Supervisory Board

Dr. Sieghardt Rometsch
Chairman

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Interpretation and evaluation of statements about the future

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. This information is based on the consolidated figures at the close of the 2005 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our Consolidated Statements. To allow you to evaluate our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included.

In addition, this publication contains statements of our expectations concerning our Group's progress during 2006. Such statements about the future can be found in particular in the Letter from the Managing Partners to our shareholders, in the 'Outlook for 2006' section, in the section on our company's strategy and also in many other places throughout this Annual Report. These statements about the future are based on our expectations of future economic and political developments and on our assumptions about the effects these will have on business progress and our related business plans.

All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the financial year 2006 becoming obsolete or outdated. We accept no obligation to adjust our forecasts, assumptions and expectations in the light of new information or in line with subsequent events to reflect the new level of knowledge, nor to update our Annual Report through subsequent publication of such changes.

Key Dates

7 April 2006

Results press conference

15 May 2006

Interim report as at 31 March 2006

30 May 2006

Annual General Meeting

14 August 2006

Press conference

Interim report as at 30 June 2006

13 November 2006

Press conference

Interim report as at 30 September 2006

Five-Year Comparison of Consolidated Figures in €m

Figures according to IFRS	2005	2004	2003	2002	2001
Balance sheet total	15,951.4	13,323.1	10,987.7	11,130.7	11,001.0
Assets					
Cash reserves	798.6	157.9	63.8	15.1	268.1
Loans and advances to banks	4,561.9	2,531.0	1,479.6	1,979.0	2,185.8
Loans and advances to customers	2,554.0	2,636.7	2,364.7	2,465.7	2,926.1
Risk provisions	- 39.4	- 52.3	- 60.0	- 63.4	- 66.4
Financial assets held for trading	6,470.6	6,215.6	4,992.2	4,352.7	3,183.4
Financial assets	1,472.2	1,678.2	1,975.2	2,211.3	2,363.8
Property and equipment	95.0	74.9	109.9	111.0	105.6
Intangible assets	7.9	35.4	0.0	1.2	0.0
Other assets	30.6	45.7	62.3	58.1	34.6
Liabilities					
Deposits by banks	1,424.7	913.6	989.2	729.4	1,801.8
Customer accounts	7,139.6	5,927.1	5,569.5	5,892.7	5,580.0
Debt securities in issue	45.3	16.9	181.1	268.1	535.6
Financial liabilities held for trading	5,883.9	4,956.4	2,883.3	2,894.4	1,703.5
Provisions	224.7	367.0	317.2	319.1	309.4
Other liabilities	80.6	81.4	59.0	69.1	79.4
Minority interests held by third parties	308.1	273.2	240.2	242.9	216.1
Equity capital (incl. consolidated profit)	844.5	787.5	748.2	715.0	775.2
Profit and loss					
Net interest income	74.6	69.3	75.0	70.4	79.7
Risk provisions	- 9.7	1.6	7.7	4.1	4.3
Net fees and commissions	264.4	226.4	196.4	195.5	197.3
Trading profit	74.3	54.4	44.8	15.3	54.6
Total administrative expenses	286.4	249.3	226.9	224.5	237.4
Net other operating expenses and income	0.8	3.8	4.5	4.4	3.0
Operating profit	137.4	103.0	86.1	57.0	92.9
Other income/expenses (net)	57.0	19.2	- 1.9	- 6.9	55.4
Net income before tax	194.4	122.2	84.2	50.1	148.3
Income tax	76.5	43.8	37.3	23.8	35.2
Net income	117.9	78.4	46.9	26.3	113.1

HSBC Trinkaus & Burkhardt
Bank since 1785

Annual Report 2005