Annual Report 2006

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt

Bank since 1785

Group Management Report

Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 15 active companies. The parent company is HSBC Trinkaus & Burkhardt AG, a German Stock Corporation.

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt (International) SA
Luxembourg

HSBC Trinkaus Investment Managers SA
Luxembourg

HSBC Trinkaus Investment Management Ltd.
Hong Kong

HSBC Investments Deutschland GmbH
Düsseldorf

Internationale Kapitalanlagegesellschaft mbH
Düsseldorf

International Transaction Services GmbH*
Düsseldorf

HSBC Trinkaus & Burkhardt Immobilien GmbH
Düsseldorf

HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH
Düsseldorf

Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH
Düsseldorf

HSBC Trinkaus Family Office GmbH
Düsseldorf

HSBC Trinkaus Private Wealth GmbH
Düsseldorf

Grundstücks-gesellschaft Trinkausstraße KG
Düsseldorf

Joachim Hecker Grundbesitz KG
Düsseldorf

Dr. Helfer Verwaltungsgebäude Luxemburg KG
Düsseldorf

* consolidated at-equity

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.

The Group is managed as a single entity by the Management Board of HSBC Trinkaus & Burkhardt AG. Supervision of executives managing Group subsidiaries is carried out by the relevant Supervisory Board, Board of Directors, and Advisory Board.

Notwithstanding the legal independent status of the subsidiaries, all companies are managed within the framework of an overall strategy, thus ensuring that every Group company is capable of fulfilling its obligation at all times.

Company Constitution

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

The appointment and dismissal of the Management Board takes place in accordance with the legal regulations of § 84 of the Aktiengesetz (AktG – German Stock Corporation Act).

Decisions on changes to the Articles of Association are made by the Annual General Meeting with two thirds of the share capital represented when the decision is made, unless a larger mandatory majority is legally required. The Supervisory Board has the right to make changes to the Articles of Association, which relate only to wording.

Capital procurement measures may only be resolved upon in accordance with the legal regulation under § 119 AktG by the Annual General Meeting. Please see Note 42 with regard to the Management Board's current authorisation by the Annual General Meeting to issue shares.

In accordance with a decision by the Annual General Meeting dated 30 May 2006, the Management Board has the right to buy and sell its own shares for the purpose of securities trading at prices that are either lower or higher than the average closing price for the share on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding stock exchange business days by no more than 10%. The number of shares bought for this purpose may not exceed 5% of the share capital of the company at the end of each day. This authorisation is valid until 30 November 2007.

There are no significant agreements by the company that are subject to a change in the control of the company as a result of a takeover bid, the company is also not involved in any compensation agreements that are entered into with employees or members of the Management Board in case of a takeover bid.

Main Principles of the Remuneration Systems of the Executive Bodies

The Supervisory Board has delegated its responsibility for the determination of the remuneration of members of the Management Board to the Personnel Committee of the Supervisory Board. The Personnel Committee was established by the Supervisory Board when the legal form was changed in a meeting dated 30 May 2006. In financial year 2006, the members of the Personnel Committee of the Supervisory Board were Dr. Sieghard Rometsch (Chairman), Stephen Green and Stuart Gulliver. The Personnel Committee met three times in financial year 2006.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed sums and performance-related components, as well as individual guaranteed pension payments. The fixed amounts were paid over twelve equal monthly instalments and checked annually by the Personnel Committee, although it is not obligatory that the fixed compensation be altered. The performance-related components are set by the Personnel Committee of the Supervisory Board and are also approved by the Global Remuneration Committee of HSBC Holdings plc and can be paid by means of an allocation of shares in HSBC Holdings plc or in a combination of both. The cash component totals at least 50% of the variable compensated. The paying out of share-based compensation takes place in three equal instalments over the next three financial years, in each case after the announcement of the annual net profit of the HSBC Group. The payout is conditional continued employment with the bank at the expected time of payment. No share options are granted to the members of the Management Board of the Bank.

Individual information on the level and composition of the payments to the Members of the Management Board during financial year 2006 can be found in Note 67 “Business Relationships with Companies and Persons Defined as “Related Parties”.

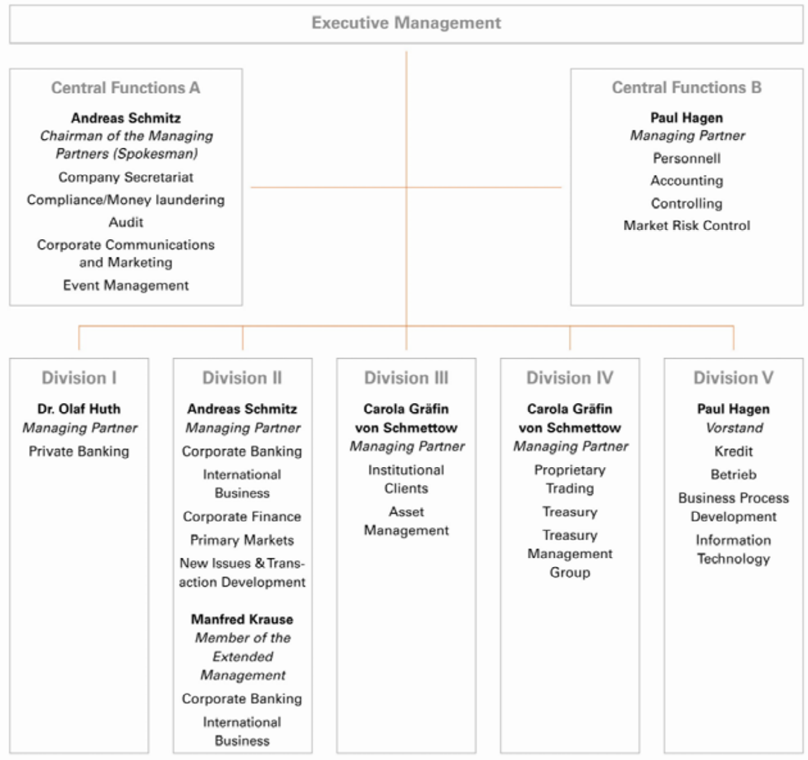
The remuneration of the members of the Supervisory Board is regulated in the Articles of Association of HSBC Trinkaus & Burkhardt AG. Each member of the Supervisory Board receives, in addition to expenses incurred (including VAT), a fixed annual payment of €25,000 and an additional payment of €100.00 for each 1 cent of dividend paid for a share. The Chairman of the Supervisory Board receives two and a half times the stated amounts, the deputy receives double the stated amounts. The chairman of a Supervisory Board committee receives double the stated amounts and members of a committee each receive one and a half times the stated amounts, if the committee in question met at least once in the financial year. If a member of the Supervisory Board holds various offices, he or she will only receive payment for office with the highest payment. Members of the Supervisory Board, who only belong to the Supervisory Board for part of the financial year or to a committee, will receive a payment that is reduced in proportion to the time.

Until the change in legal form, the following regulation on compensation applied: Each member of the Supervisory Board receives, in addition to expenses incurred (including VAT), a fixed annual payment of €3,000 annually and an additional payment of €1,000 for each 5 cents of dividend paid per share in excess of 10 cents. The Chairman of the Supervisory Board will receive double the stated amounts, the deputy chairman will receive one and a half times the stated amounts. The members of Supervisory Board committees will not receive any separate compensation.

Information on the level of the payments to the Members of the Supervisory Board during financial year 2006 can be found in Note 67 “Business Relationships with Companies and Persons Defined as “Related Parties” of the Consolidated Annual Financial Statements.

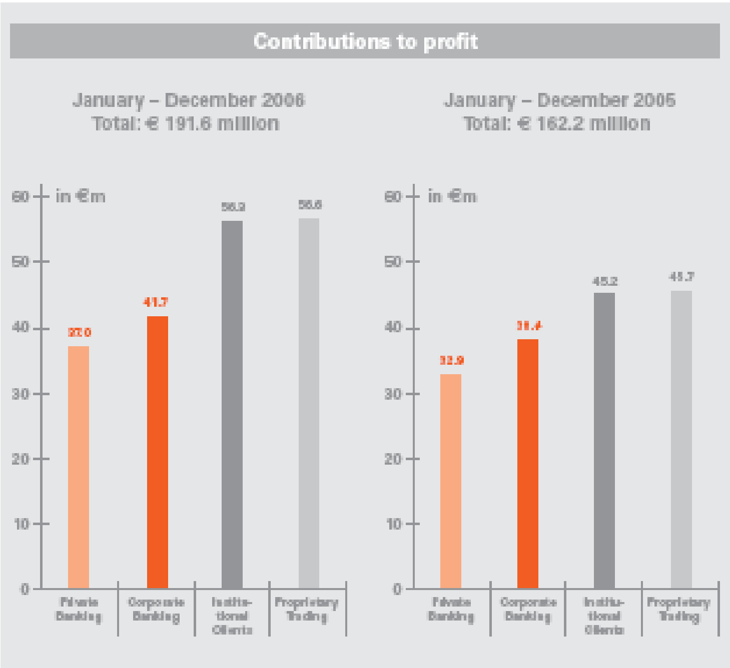
The Business Divisions

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

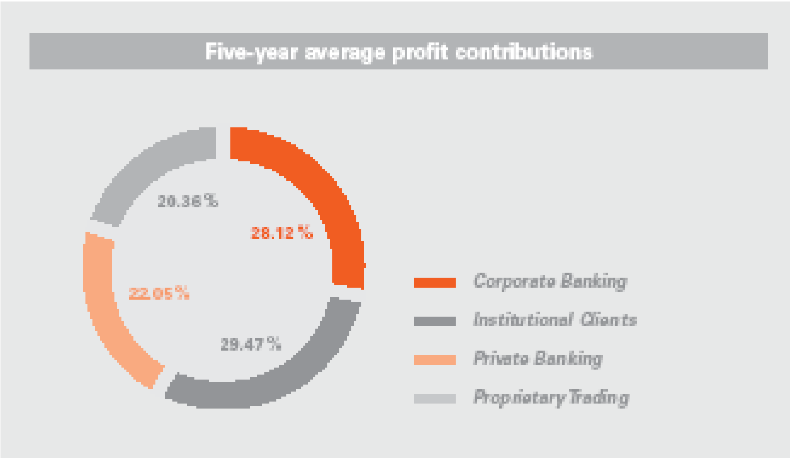


Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Proprietary Trading.

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



After deduction of the € 9.1 million net costs incurred by head office functions during 2006, as against € 26.0 million for 2005, the 2006 operating profit was € 182.5 million (2005: € 136.2 million). The mean contributions to profits over the last five years reveal a very balanced picture:



Strategic Direction

The German banking market is still characterised by the stronger penetration of international banks, especially in the target client segments also covered by our banking activities. This trend is also being supported by the growing demand from German clients for international banking products. Several of the large German banks have been encouraged by lower value adjustments and improved trading results, but are still handicapped by a lack of internationality and capital power. They are countering this in a traditional way, by increasing volumes or lowering margins and switching to poorer credit ratings. This may appear to be feasible in the short to medium term owing to the improved cyclical prospects, but there is a risk in the long-term that crisis situations, as were observed in 2002/2003, will be repeated.

The process of concentration longed for on the German market for decades will continue to take its time in developing despite showing the first signs. It remains questionable whether the situation relating to Landesbank Berlin will lead to a change in the “Three pillar system”.

Nevertheless, the process of concentration will make lasting changes to the national and international competitive environment. An ever-more differentiated range of financing and investment alternatives 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 within the scope of our strategy to take on the position of core bank for our important corporate and institutional clients, we converted the legal form of the Bank from a Partnership Limited by Shares (KGaA) to a German Stock Corporation (AG) with effect from 31 July with the entry in the Commercial Register. 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. After five months in our new look we can now say that this step has been received extremely well by the market and by our clients.

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. It is essential that we make this unique combination in the German banking landscape more visible in the years ahead for both our clients and our future clients.

We offer selected clients not only the full range of traditional banking services, but also focus on 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. In the area of complex financial derivatives and in the M&A business, we systematically develop meaningful and usable innovations and solutions for our clients. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

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

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

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

- Financial innovation is our strength, because the application of wide-ranging expertise is the only way to realise value-added for our clients and for the Bank. Nevertheless, it also appears necessary at the same time to emphasise our careful, flexible and service-oriented execution of standard transactions.

- We are constantly expanding our range of securities settlement services for 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 efficiency and the respective regional network.

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

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

- We must find and develop useful solutions in the spectrum of ever more complex financial services on the basis of a long-term client relationship which is based on trust

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

- We must invest in the qualification of our employees through targeted training and advanced training measures on international level.

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

We firmly believe that this strategy, not least also in the new legal structure 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 2006 Financial Year

The economic environment

The global economy experienced robust growth for the fourth time in succession in 2006 of more than 4%. The cyclical trend in the Eurozone and in Germany was better than largely expected. The German economy expanded by 2.7% while inflation was kept to 1.7%. On account of the cyclical revival there was a notable increase in employment in 2006 and the number of unemployed fell by around 374,000 persons on average for the year.

The ECB raised the base interest rate in four steps over the course of the year from 2.25% to 3.50%. On the other hand, the US central bank already put an end to its phase of monetary tightening in June 2006 with an increase in the base rate to 5.25%.

Ten-year government bonds were yielding 4.70% in the USA and 3.96% in the Eurozone at the end of 2006. The euro gave a positive performance in 2006 rising to US dollar 1.32 by the end of the year compared to US 1.18 at the end of 2005.

The favourable trend on the stock markets continued in 2006. The German DAX share index moved between 5,292 and 6,140 points in the first half of the year and in a range of 5,397 to 6,612 points in the second half. Compared with the level at the end of 2005, stock market growth of 22% was achieved last year.

Profitability

We once again clearly exceeded our ambitious targets in the 2006 financial year. Operating profit, the most important financial performance indicator, grew by 34.0% to a new record level of € 182.5 million. We again managed to improve our results in all business divisions.

By clearly focusing our strategic orientation on selected client groups, we continued along a profitable growth path in 2006 despite notable investments in employees and systems.

The success of the 2006 financial year is based essentially on three main factors:
- Consistent implementation of our strategic orientation
- Intensive cooperation with HSBC
- A favourable environment on the capital markets

As a result of the implementation of our strategic orientation, we were able to acquire new target client relationships in all client segments as well as intensify existing client relationships. We achieved more than proportionate growth compared to the market. In the proprietary trading business we are concentrating increasingly on trading with equities and equity derivates while turning more and more to HSBC's global trading books in our foreign exchange and interest rate products trading activities.

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

We were able to use the positive trend on the stock markets both in Germany and Europe and throughout the world on the one hand to generate extremely high profits in trading with equities and equity derivatives. On the other, we recorded very high client transaction figures in this market environment which led to an increase in net fees and commissions in all customer segments. The institutional clients segment benefited from this in particular.

The individual items of the profit and loss account developed as follows:

Net interest income was up 20.2% to € 88.6 million owing to the further significant increase in claims and liabilities, despite the continuing pressure on the interest margin. We again succeeded in reducing risk provisions for the lending business on balance, albeit to a slightly lesser extent than in the previous year. Overall, net interest income after risk provisions increased 12.4% to € 93.8 million.

There was a 6.6% increase in net fees and commissions to € 281.8 million. Commission earned was up 25.25% to € 520.4 million while commission paid jumped by 57.7% to € 238.6 million. The more than proportionate increase in commission paid is essentially the result of the fact that securities settlement via International Transaction Services GmbH (ITS) only started in August the previous year. Until then, securities settlement charges were mainly recorded in the Bank's administrative expenses while revenues in the business with other clients increased commission earned.

Trading profit grew by 40.0% to reach a new high of € 104.0 million. We enjoyed particular success in marketing retail products under our HSBC Trinkaus Investment Products brand (www.hsbc-tip.de). We also benefited from the favourable mood on the European bond and stock markets as well as from the remarkable performance of the euro versus the US dollar.

Overall, administrative expenses increased by a moderate 3.8% to € 298.6 million. Personnel expenses were up by only 1.6% even to € 189.7 million while administrative expenses saw stronger growth of 11.5% to € 98.6 million. As a result of the transfer of securities settlement to ITS on the one hand and the setting up of a CTA on the other in 2005 in each case, the increase in administrative expenses, in particular of personnel expenses, slowed down significantly. The sale of the GEOS securities settlement license to ITS the previous year led to a 17.6% decline in depreciation to € 10.3 million.

There was a significant decline in the result on financial assets and other income in each case as no notable extraordinary items were recorded in contrast to the previous year. Despite the strong increase in operating profit, this led to a marginal decline in net income before tax of 2.1% to € 189.5 million. Net income after tax declined slightly by 2.4% to € 114.6 million analogous to net income before tax. The tax rate in 2006 came to 39.5% after 39.3% the previous year.

The asset situation

In 2006 total assets again grew substantially by 17.1% to € 18.7 billion. On the assets side, there was a significant rise in particular in loans and advances to banks of 21.2% to € 5.5 billion, loans and advances to clients of 27.1% to € 3.2 billion as well as assets held for trading purposes of 21.8% to € 7.9 billion. On the other hand, there was a 45.5% reduction in balances with the Deutsche Bundesbank to € 0.4 billion, which was balance sheet related. On the liabilities side, compared to the previous year loans and advances to clients were up 24.1% to € 8.9 billion, loans and advances to banks by 19.5% to € 1.7 billion and assets held for trading purposes by 10.1% to € 6.5 billion.

The growing number of client relationships is associated with the expansion of our lending portfolio, in particular in the corporate banking business. This is evident above all from the growth in loans and advances to clients. On the other hand, the increase in loans and advances to banks and assets held for trading purposes is due above all 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 funds 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 increase in deposits by banks is exclusively balance sheet related.

While our trading portfolios of equities and other variable-income securities were almost unchanged, there was a significant increase in our fixed-income securities and marketable assets in the trading portfolio overall. The market values of derivatives declined notably owing to the trend in interest rates in both financial assets and liabilities held for trading purposes, although we further expanded the derivatives business in cooperation with HSBC.

The financial position

On the balance sheet date, the Group's equity capital ratio and core capital ratio according to the German Banking Act (Kreditwesengesetz – KWG) was 12.3% and 7.0%, respectively. This means that the Bank's capital resources still exceed the minimum regulatory requirements by far.

There was a significant increase in risk assets and a moderate increase in the market risk positions according to the German Banking Act in 2006. Regulatory capital also grew substantially to € 1.0 billion in the Group. This was based essentially on the fact that first of all € 70.0 million from net income in 2005 was transferred to revenue reserves according to a resolution by the 2006 Annual General Meeting. Secondly, the Management Board made use of its power to issue participation certificates in the second half of 2006 by issuing registered participation certificates with a nominal value of € 100.0 million in total. Furthermore, maturing subordinated liabilities were replaced in full and increased – exploiting favourable market conditions - by a further € 32.2 million to € 308.2 million in nominal terms.

We made no substantial adjustments to financial investments in 2006. At € 88.6 million the revaluation reserve for financial instruments was down slightly compared to € 93.9 million the previous year.

Liquidity at the Bank also remains good. Regulatory requirements were exceeded significantly throughout the year, with the key liquidity ratio in accordance with Principle II of the German Banking Act (Grundsatz II) at an average of 1.71 for the end-of-month positions.

Outlook for 2007

The global economy will lose some of the momentum it has experienced in previous years in 2007. In the USA in particular, the problems on the real estate market could lead to a significant slowdown in growth. For the Eurozone, growth in the region of production potential of around 2.0% is on the agenda. The further devaluation of the US dollar and a rising euro/US dollar exchange rate again has to be anticipated this year. Since the ECB raised base interest rate in five steps last year, we expect interest rates to level out in 2007. The bond markets are nevertheless under pressure.

As was already the case in 2006, Germany will prove to be a mainstay for the euro economy in 2007. The robust assessment of the situation by Germany companies and the improvements on the labour market underline the competitive strength which has been regained in recent years. Economic growth of more than 2.0% is within reach in Germany in 2007, depending on the extent to which private consumption picks up.

2007 will therefore offer solid prospects for banks in Germany. We are confident that HSBC Trinkaus & Burkhardt will again be able to successfully hold its ground in this environment. We were able to use the opportunities for our banking business better than expected in 2006. 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 and establishing HSBC Trinkaus & Burkhardt as a core bank with more and more clients.

The starting base is very high given the successes achieved in the 2006 financial year in which we clearly exceeded our forecast, especially as we have been able to generate clearly double-digit growth rates in our operating profit in each of the past four years. Nevertheless, we are pursuing the goal of further increasing our operating profit in 2007 as well. This is subject to the continuation of the trend towards higher securities turnover which was established 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 and 2006 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. We regard a range of between 65% and 70% for the cost-income ratio in terms of the operating profit as adequate for our business model of a universal bank offering a broad range of products for our clients. All in all, we are pursuing the goal of high single-digit percentage growth in our operating profit. The same applies to net income after tax.

We are expecting increased operating profits from all clients segments. The volume of assets managed in our Private Banking business has increased significantly as a result of the inflows of funds in previous years and the good performance forming a solid base for the further expansion of the business. We will continue to broaden our product offer, but will also require additional qualified staff in order to generate further strong growth. The performance of important asset categories will presumably require the greater use of structured products in 2007 in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident 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 collaboration with 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 from the credit margins. Having applied in particular to the syndicated loan business with internationally-operating groups so far, this statement can now also be extended to the upper SME segment. 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 still 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 cooperation with 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 in the previous years, 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 Investments Deutschland GmbH has benefited and will continue to benefit from the greater use by institutional clients of mutual funds geared especially to their requirements. The successful global product cooperation with other HSBC companies in the field of global asset management services will lead to the significant broadening of the product range above all also for investments in countries which stand out through particularly dynamic growth. The success of our subsidiary Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for fund administration will continue. A volume of more than € 50.0 billion in fund administration creates economies of scale in the competition. In addition, we will further improve our performance as a global custodian through more intensive cooperation with HSBC Securities Services. The success with acquisitions in 2006 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 significant growth in interest from retail investors, to whom we sell our products via other banks and increasingly via the Internet brokerage, as a result of the good stock market performance in recent months.

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. New products are expected to support our HSBC Trinkaus Investment Products sales initiative in the future. Overall, owing to this orientation growth in revenues from proprietary trading is more dependent on the performance of the European stock markets than before. It will only be possible to exceed the extremely high proprietary trading result recorded in 2006 given a favourable general setting.

The investments in IT systems will be continued to the extent planned in 2007 in order to realise further increases in efficiency in different areas of the Bank. These will be accompanied by adjustments which are necessary to effectively support cooperation with the HSBC Group. The projects started, in particular the preparations 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 2007. We have planned the targeted recruitment of additional employees in order to be able to realise the growth planned in our client business. We also require additional staff for the internal areas of the Bank in order to further maintain high quality in processing larger volumes. The Bank’s regulatory costs, which are already high, will increase further. The fulfilment of the requirements of the Sarbanes-Oxley Act (SOX) and the European Markets in Financial Instruments Directive (MiFiD) will contribute to this. Overall, we are expecting an increase in administrative expenses in the high single-digit percentage region for 2007.

Following the further issue of new participatory capital and after the planned reinvestment of net income, the Bank’s capital position has improved further and will enable the expansion of our business activities. 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

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. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the bank has taken out adequate insurance. We exclude reputation and liquidity risks as far as possible and also deal with lower incomes.

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

Risk management policy
Organisational structure

The following three committees play a central role in the organisation of risk management within the Group:
- The Credit Committee for counterparty risk
- The Asset and Liability Management Committee for market and liquidity risks
- The Committee for Operational Risks for operational risks including
legal risks and risks to reputation.

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 unforeseen risks can never be ruled out completely.

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

Strategic Risk

By strategic risk we mean possible changes in the market environment and in the Bank's efficiency, which could have a detrimental effect on earning power in the medium term. They result primarily from the business strategy. HSBC Trinkaus & Burkhardt is particularly exposed to such risks primarily because 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. 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. Our joint venture with T-Systems has enabled us to reduce the strategic risk resulting from our previous heavy investment in the securities settlement system.

In 2006, we fundamentally reviewed and improved reporting for our customers on the basis of a new portfolio management system. Subsequently, in 2006, we initiated a project for the integration of order routing into the portfolio management system. In the project for the automation of statutory reporting in the area of finance, we were able to make further significant progress. In 2007, this project will lead to the implementation of the calculation of capital requirements in accordance with Basel II. This involves considerable costs for the introductory work and future license fees. 2007 will also see the implementation of the EU Financial Markets Directive. Significant details are expected to be announced initially in the first half of the year by means of regulations by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin - German Financial Supervisory Authority). The rules must be implemented in a very short period of time, by 1 November 2007. 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. We are sceptical as to 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 2005. The Bank's Management Board has 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 Bank's Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. The credit risk strategy approved by the Credit Committee of the Supervisory Board provides a framework for decisions in this area.

In the light of the reform of the Basel Capital Accord, the Bank introduced a new 22-stage internal rating system in 2005 for its credit business for the classification of the credit quality of its customers in the area of corporate and institutional customers (see section on Basel II). In order to calculate the internal rating, the Bank uses four rating systems that cover the customer groups of international corporations, German medium-sized companies, banks and financial services providers. These systems were already in use for the classification of risk parallel to the previous seven-stage system until they were accepted by the supervisory authorities and their details are undergoing constant improvement. The internal rating provides a basis for credit decisions and is supplemented by the expert knowledge of the analysts and any security agreements.

The rating system for medium-sized German companies was developed independently by the Bank. It is based on a statistical component for the assessment of the economic situation of the borrower with reference to his or her financial information, which is developed using internal customer data. This is supplemented by an expert system that evaluates the quality of the customer and his or her economic environment. The system is completed by a set of regulations on the recognition of contingent liabilities within corporations. The selectivity of the statistical model has been proven on the basis of an external data record of German companies with very good results.

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

The probability of default for each borrower can be derived from the creditworthiness classes. On this basis, the expected loss for the individual credit commitments is estimated taking into account security and other agreements. For credit commitments with a high risk of default, a risk provision is formed. In order to calculate this provision, the future payments from credit and if necessary from the realization of security is estimated over a period of time so that the cash value of these payments can be compared with the book value of the credit commitment. The risk provision thereby covers the shortfall calculated in this way entirely.

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. 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 counter-party 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 by the credit committee of the Supervisory Board 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.

Adherence to country limits is monitored on a daily basis with the help of computer software that also takes risk transfers into account (in other countries or from other countries).

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

The credit volume as of the balance sheet date is broken down by sector as of the balance sheet date as follows:

	31 Dec 2006		31 Dec 2005	
	in € m	%	in € m	%
Banks and financial institutions	14,604.3	72.4	11,095.4	68.1
Companies and economically independent professionals	4,161.0	20.6	3,852.5	23.6
Public sector	843.7	4.2	920.4	5.6
Economically non-independent private clients	554.1	2.8	438.6	2.7
Total	**20,163.1**	**100.0**	**16,306.9**	**100.0**

The credit volumes to companies and economically independent professionals by creditworthiness class provide the following image:

	31 Dec 2006		31 Dec 2005	
	in € m	%	in € m	%
Credit Rating 1-3	3,958.9	95.1	3,692.9	95.9
Credit Rating 4-5	164.2	4.0	105.8	2.7
Credit Rating 6-7	37.9	0.9	53.8	1.4
Total	**4,161.0**	**100.0**	**3,852.5**	**100.0**

The credit risk strategy determines that at least 90% of the credit volume is issued to companies and economically independent professionals in the creditworthiness class 1 to 3.

Basel II

Central to the Basel II framework, which was adopted into national law in 2006 by means of the introduction of a German solvability regulation is the changing of the regulatory equity capital requirements governing the credit industry. HSBC Trinkaus & Burkhardt will use the transitional regulation of the solvability regulation and implement the base IRB approach (internal ratings based) as of 1 January 2008. The introduction of the IRB approach, will lead to a very differentiated consideration and quantification of the credit risk. The Bank intends to introduce 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. The improvement of the IT systems for the recording and archiving of rating information was a strong focus in 2006. In 2006, HSBC Trinkaus & Burkhardt submitted an application to Federal Financial Supervisory Authority (BaFin) for approval of the base IRB approach. The inspection for certification of the internal rating system by the German banking supervisory authority is planned for the first quarter of 2007.

In 2006, the implementation of automated calculation of the capital requirements was begun in accordance with the rules of the solvability regulation. For this purpose, HSBC Trinkaus & Burkhardt is implementing standard reporting software from an external supplier. This system is already in use for the current requirements of reporting, so that the provision of business data to the system is guaranteed. The extensions to the provision of data, which result from the requirements of the solvability regulation will be the focus of work in the Basel II project 2007. An inspection by the banking supervisory authorities for this part of the implementation of Basel II is planned for the second half of 2007.

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 Risks

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 is the central body responsible for the comprehensive control of operational risks and reputational risks. 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 that are identified by means of this “self assessment” 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 in order to calculated the absolute inherent level of risk for the Bank. On this basis, risks are then assigned to one of four risk categories, explicitly taking into explicit account the bank’s control environment that has already been implemented. If the Committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. It can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

The risks, including their valuation 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 Management Board for approval. This ensures that all board members are constantly informed about current developments and the Bank’s risk profile.

A further significant instrument in the identification and observation of operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus & Burkhardt are involved. All operational risks that lead to significant loss or profit or which could have done so under unfavourable conditions, must be reported to the Secretary of the Committee. 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 Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The Committee's work has generated significantly greater awareness of operational risk among all Bank staff in recent years. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk.

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.

With the introduction of the Basel-II framework, operational risks have to be supported through equity capital in future. The Bank plans to apply the so-called standard approach for calculating supervisory equity capital backing for operational risks from 1 January 2008.

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, as well as to a lesser extent raw materials activities without a physical delivery.

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. Raw materials risk are limited internally by means of various limits (including limits for sensitive and special stress scenarios).

The total market risks for the AG in accordance with the internal risk model and figures calculated in a comparable way for the Luxembourg subsidiary were as follows as of the balance sheet date:

in € m	**31 Dec 2006**	**31 Dec 2005**
Interest rate contracts	5.2	4.4
Currency business	0.3	0.3
Equity and index-linked business	4.7	4.9
Total potential market risk	**7.6**	**6.1**

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.

The internal value-at-risk model is also used to quantify the market risks in the special funds managed by our subsidiaries as part of an outsourcing service.

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 2006, 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 taking into account the ability to assume risk determined by 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 Risks

Liquidity risk is the danger of insolvency. We avoid this by maintaining high liquidity and by the responsible structuring of assets and liabilities.

Securities held for trading were mainly self-financed by trade by means of the assumption or issuing of structured promissory note loans, bonds and certificates. Demand deposits and time deposits from customers are reinvested, despite a high level of deposits in the short-term money market papers of the HSBC Group, as financial security within securities loans transactions, for the financing of short-term forward purchases of customers or in the inter-bank money market. Almost all bonds in the banking book and significant portions of the bonds in the trading portfolio are securities that can be used as securities, which are deposited with Deutsche Bundesbank, and various clearing institutions. This fully covers the needs of our various business activities. In order to tap into additional liquidity reserves, as of January 2007, we will be participating in a new electronic submission procedure from Deutsche Bundesbank for loan receivables in order to first of all be able to use promissory note loans as further security for refinancing transactions.

The Bank's structural liquidity position is determined and managed by the Asset and Liability Management Committee and also approved by HSBC. As part of the control process, the balance sheet structure and key liquidity figures are constantly monitored and liquidity commitment balance sheets are consulted periodically with various scenarios.

Our internal bank liquidity reserves still significantly exceed requirements the liquidity requirements of the Federal Financial Supervisory Authority (BaFin). Taking this into consideration, there are currently no plans to introduce an internal model for liquidity risks.

Staff

Number of employees

The number of employees increased by the end of 2006 in comparison with the previous year by 92 to a total of 1,619. Seven trainees completed their banking qualifications during the year under review and eight passed their examinations in office communications.

At the end of 2006, we were paying retirement, widow’s and orphan’s pensions to 533 recipients, in comparison with 519 at the end of the previous year.

Training

In view of the continuing 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 that we and our customers demand. Taking this into consideration, we pay particular attention to the further training of our employees. For example, we help them to advance by providing product-specific training, leadership seminars and communication training, as well as PC and IT seminars, foreign language courses and secondments abroad. When selecting vocational training activities, we play close attention to the special requirements placed on our employees in various areas of business.

Performance-related

Performance-related remuneration has proven to be an effective instrument in motivating our staff regardless of whether they are tariff or non-tariff employees. The profit-based payment of managerial staff is also 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 over the past financial year.

Shareholders and Shares

Shareholders

As at 31 December 2006 the Bank's issued share capital was € 70.0 million divided into 26.1 million no-par value shares. 52% of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

On the balance sheet date, HSBC Holdings plc, London, indirectly held 78.6% (2005: 77.9%) of this share capital and Landesbank Baden-Württemberg in Stuttgart indirectly held 20.3%.

Share price and market value

During 2006 our share price rose 20.0% to € 105.00. The lowest fixing price of the year was € 86.00 and the highest € 121.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985), the exchange price and market capitalisation have evolved as follows:

Date	Numbers of shares*	Share price* in €	Market capitalisation in € m
31 Dec 1985	18,000,000	17.60	317.5
31 Dec 1990	22,000,000	19.80	435.3
31 Dec 1995	23,500,000	30.60	718.5
31 Dec 2000	26,100,000	110.00	2,871.0
31 Dec 2005	26,100,000	87.50	2,283.8
31 Dec 2006	26,100,000	105.00	2,740.5

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

Since the initial public offering, the value of our shares, assuming the reinvestment of dividends and participation in all capital increases, has increased by a factor of approximately 9.6. This is equivalent to average growth of around 11.3% p. a.

Dividends

For the 2006 financial year we propose paying a dividend of € 2.50 per share (2005: € 2.50 per share). With a dividend total of € 65.3 million we wish to ensure that our shareholders participate suitably in the profits we generated in 2006.

Düsseldorf, 6 February 2007

The Management Board

HSBC Trinkaus & Burkhardt AG
Düsseldorf

Consolidated Financial Statements

Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

Assets in € m	(Notes)	31 Dec 2006	31 Dec 2005	Change	
				in € m	in %
Cash reserves	(22)	436.3	798.6	- 362.3	- 45.4
Loans and advances to banks	(5, 23)	5,531.3	4,561.9	969.4	21.2
Loans and advances to customers	(5, 24)	3,245.4	2,554.0	691.4	27.1
Risk provisions	(6, 25)	- 17.0	- 26.1	9.1	- 34.9
Financial assets held for trading	(7, 26)	7,880.5	6,470.6	1,409.9	21.8
Financial assets	(9, 27)	1,437.6	1,472.2	- 34.6	- 2.4
Shares in companies evaluated at equity	(28)	1.5	0.0	1.5	100.0
Property and equipment	(11, 29)	80.4	78.0	2.4	3.1
Intangible assets	(12, 29)	9.3	7.9	1.4	17.7
Income tax assets	(30)	2.5	1.8	0.7	38.9
current		2.5	1.4	1.1	78.6
deferred		0.0	0.4	- 0.4	- 100.0
Other assets	(31)	68.6	29.2	39.4	> 100.0
Total assets		**18,676.4**	**15,948,1**	**2,728.3**	**17.1**

Liabilities in € m	(Notes)	31 Dec 2006	31 Dec 2005	Change	
				in € m	in %
Deposits by banks	(14, 34)	1,702.5	1,424.7	277.8	19.5
Customer accounts	(14, 35)	8,861.4	7,139.6	1,721.8	24.1
Securitised debt	(36)	29.8	34.6	- 4.8	- 13.9
Financial liabilities held for trading	(7, 37)	6,476.8	5,883.9	592.9	10.1
Provisions	(15, 17, 38)	113.0	103.5	9.5	9.2
Income tax liabilities	(39)	62.0	128.1	- 66.1	- 51.6
current		25.7	80.7	- 55.0	- 68.2
deferred		36.3	47.4	- 11.1	- 23.4
Other liabilities	(40)	105.4	91.0	14.4	15.8
Subordinated capital	(41)	440.6	308.1	132.5	43.0
Equity capital	(42)	884.9	834.6	50.3	6.0
Subscribed capital		70.0	70.0	0.0	0.0
Capital reserve		211.4	211.0	0.4	0.2
Retained earnings		481.8	430.9	50.9	11.8
Consolidated profit		121.7	122.7	-1.0	- 0.8
Total liabilities		**18,676.4**	**15,948.1**	**2,728.3**	**17.1**

Consolidated Profit and Loss Account
HSBC Trinkaus & Burkhardt

Profit and Loss Account				Change	
in € m	**(Notes)**	**2006**	**2005**	**in € m**	**in %**
Interest income		285.1	217.4	67.7	31.1
Interest expense		196.5	143.7	52.8	36.7
Net interest income	(43)	88.6	73.7	14.9	20.2
Risk provisions	(6, 45)	- 5.2	- 9.7	4.5	- 46.4
Result from shares in companies evaluated at equity	(44)	2.5	0.9	1.6	> 100.0
Fee income		520.4	415.7	104.7	25.2
Fee expense		238.6	151.3	87.3	57.7
Net fee expense	(46)	281.8	264.4	17.4	6.6
Trading profit	(47)	104.0	74.3	29.7	40.0
Total administrative expenses	(48)	298.6	287.6	11.0	3.8
Net income from investment securities	(49)	6.5	49.1	- 42.6	- 86.8
Other income	(50)	- 0.5	9.0	- 9.5	> 100.0
Net income		**189.5**	**193.5**	**- 4.0**	**- 2.1**
Income tax	(51)	74.9	76.1	- 1.2	- 1.6
Net income		**114.6**	**117.4**	**- 2.8**	**- 2.4**
Appropriation of net income:		7.1	5.5	1.6	29.1
Net income		**121.7**	**122.9**	**- 1.2**	**- 1.0**
Allocated to:					
Dividend distribution		65.3	65.3	0.0	0.0
Retained earnings and profit carried forward		56.4	57.6	- 1.2	- 2.1

The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2005: € 2.50 per share).

Earnings per Share

	2006	2005
Annual net profit after taxes in € m.	114.6	117.4
Profit attributable to minority shareholders in € m.	0.0	0.0
Annual net profit after tax in and minorities in € m.	114.6	117.4
Average number of shares in circulation, million	26.1	26.1
Earnings per share in €	**4.39**	**4.50**
Basic earnings per share in €	**4.39**	**4.50**

As in 2005, there were no option and conversion rights outstanding for the purchase of shares in the 2006 financial year. There was therefore no calculable dilution effect. This means that for the past two financial years, basic earnings per share have equalled adjusted earnings per share.

No modification to any accounting methods, assessment methods or consolidation methods (cf Note 20) had a material impact on the result per share.

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in € m	Subscribed capital	Capital reserve	Retained earnings	Balance sheet profit	Minority	Equity capital
Status as at 31 Dec 2004	**70.0**	**210.8**	**423.8**	**82.8**	**0.1**	**787.5**
Distribution of balance sheet profit				- 58.7		- 58.7
Retention from 2004 balance sheet profit			18.8	- 18.8		0.0
Changes in value resulting from currency differences			0.1			0.1
Addition from net income				117.4		117.4
Gains/losses not recognised in P & L			- 11.8			-11.8
Profit attributable to minority shareholders					- 0.1	- 0.1
Ratio-based payments in the form of employee options		0.2				0.2
Status as at 31 Dec 2005	**70.0**	**211.0**	**430.9**	**122.7**	**0.0**	**834.6**
Distribution of balance sheet profit				- 65.3		- 65.3
Retention from 2005 balance sheet profit			50.3	- 50.3		0.0
Changes in value resulting from currency differences			0.0			0.0
Addition from net income				114.6		114.6
Gains/losses not recognised in P & L						
			0.6			0.6
Ratio-based payments in the form of employee options		0.4				0.4
Status as at 31 Dec 2006	**70.0**	**211.4**	**481.8**	**121.7**	**0.0**	**884.9**

Comprehensive Profit for the Period

in € m	2006	2005
Net income	114.6	117.4
Gains/losses not recognised in P & L	0.6	- 11.8
of which from financial instruments	- 5.3	1.6
of which from actuarial results	5.9	- 13.4
Total	**115.2**	**105.6**

Consolidated Cash Flow Statement
HSBC Trinkaus & Burkhardt

in € m	2006	2005
Net income	114.6	117.4
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	61.1	- 100.1
Net profit from sale of investments, property and equipment	- 0.1	- 29.6
Other adjustments (net)	4.6	3.1
Sub-total	180.2	- 9.2
Changes to assets and liabilities from operating activities, after adjustment for non-cash components:		
Loans and advances to banks	- 969.4	- 2,030.9
Loans and advances to customers	- 697.3	79.4
Securities held for trading	- 817.1	672.6
Other assets	- 26.1	208.2
Liabilities	2,000.4	1,722.4
Securities debt	- 4.8	28.4
Other liabilities	- 52.6	0.5
Total adjustments	- 566.9	680.6
interest receipts	276.1	213.0
Dividend receipts	11.5	5.3
Interest payments	- 196.5	- 143.7
Income taxes paid	- 119.1	- 132.3
Cash flow from operating activities	**- 414.7**	**613.7**
Proceeds from the sale of investments in property and equipment	1.5 1.4	38.6 38.1
Payments for the acquisition of investments in property and equipment.	- 2.4 - 15.2	- 9.7 - 16.2
Effects from the results of changes in the Group of consolidated companies	0.0	- 0.1
Cash flow from investment activities	**- 14.7**	**50.7**
Dividends paid	- 65.3	- 58.7
Adjustments to subordinated capital	132.4	35.0
Cash flow from financing activities	**67.1**	**- 23.7**

Cash and cash equivalents at beginning of period	**798.6**	**157.9**
Cash flow from operating activities	- 414.7	613.7
Cash flow from investment activities	- 14.7	50.7
Cash flow from financing activities	67.1	- 23.7
Cash and cash equivalents at end of period	**436.3**	**798.6**

Notes to the Consolidated Accounts

Accounting Principles

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf for the 2006 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional commercial law regulations in accordance with § 315a Para. 1 *Handelsgesetzbuch* (HGB – German Commercial Code) have also been taken into consideration.

The approval of the annual financial statements takes place in compliance with the legal regulations and is strictly the function of the Supervisory Board, on the basis of a proposal by the Management Board. After approval has been performed, the Annual General Meeting will compile the decision on the use of the balance sheet profit.

For purposes of clarity, all figures have been reported in millions of euros.
The balance sheet was created and valued under the assumption that the Group is a going concern.

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

At the end of 2006, HSBC Holdings plc had an indirect holding of 78.6% in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated accounts of HSBC Trinkaus & Burkhardt AG are included in the consolidated accounts of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Accounting, Valuation and Consolidation Methods

1 The Group

As a subsidiary, these consolidated accounts basically include all affiliated companies in which the parent company directly or indirectly holds the majority of the voting rights or over which it exercises a controlling influence. In addition, we have fully consolidated two special funds in accordance with SIC 12 again. A detailed listing of the companies consolidated in addition to the consolidated companies can be found in Note 63.

HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf is excluded from the group of consolidated companies, which merged with HSBC Trinkaus & Burkhardt Immobilien GmbH.

In the financial year, HSBC Trinkaus Family Office GmbH, Düsseldorf was formed and is therefore part of the group of consolidated companies for the first time.

2 Consolidation Principles

The consolidated financial statements are prepared in compliance with IAS 27.28 in accordance with standard accounting and valuation methods for the Group.

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

Intra-group claims and liabilities, expense and revenue have been offset against each other; intercompany profits have been eliminated.

3 Foreign Currency Translation

For the purposes of foreign currency translation, pursuant to IAS 39 in conjunction with IAS 21, we make a distinction between monetary and non-monetary financial instruments. Revaluations resulting from currency translation of monetary items are always 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.

The conversion of forward exchange dealings takes place at the relevant forward rate for the balance sheet date. Spot exchange transactions and 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.
The translation of transactions by foreign subsidiaries takes place in accordance with the modified reporting date method; balance sheet items are translated using the appropriate daily rate of exchange, expenses and income, on the other hand, are translated at the relevant average rate. 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 2006 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 agreement in question. Financial instruments are (partially) eliminated from the accounts as soon as the Group no longer carries the relevant risks and opportunities associated with the financial instrument.

Where it is necessary under IAS 39 to split hybrid financial instruments into the host contract and the derivative portion (embedded derivative), the derivative is reported separately in the balance sheet. The embedded derivatives are valued with an effect on net income at market value and are reported under financial assets held for trading and/or financial liabilities held for trading.
All financial instruments are assigned to one of the categories in accordance with IAS 39 when they are first reported.

No financial instruments have been assigned to the “held-to-maturity” category, as in the previous year. The fair value option has also not been used. As of the balance sheet date, no hedging in accordance with IAS 39 existed (hedge accounting).

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 taken into account. Impairments on Impairment tests are conducted on the date of each interim report.

5 Loans and Advances

Loans and advances to banks and customers are assigned to the category of loans and receivables and valued at amortised cost price, with the exception of purchased receivables. Discounts and premiums reported under interest receivable proportionately to the period. Purchased receivables that are allocated to available-for-sale financial assets are reported at market value.

6 Risk Provisions in the Lending Business

Risk provisions in the credit business covers risk provisions for asset receivables and provisions for credit risks. 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.

On an individual transaction basis, provisions are calculated individually for each borrower with regard to balance sheet loans and off-balance sheet transactions. The Credit Department therefore classifies all borrowers in one of 22 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 relevant.

The credit ratings reflect the likelihood of a borrower in question defaulting on the credit exposure. Provisions are created equal to the amount of the expected loss, including unpaid interest. The expected loss is determined on the basis of the expected future payment flows for each commitment, taking into account collateral.

In addition bad debt charges/provisions are created 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 (portfolio)/ a general bad debt charge will then be calculated for each of these portfolios on the basis of historical default probabilities.

Receivables identified as irrecoverable 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

All items that are concluded for the purpose of gaining short-term profits from market price changes and all derivatives are shown under financial assets and liabilities held for trading. All assets and liabilities held for trading are reported at market value.

If publicly listed market prices are present on an active market, these are used strictly for the calculation of the fair value, otherwise the evaluation takes place on the basis of recognized calculation methods.

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. We have developed our own valuation routines for certain complex products in close collaboration with HSBC.

Owing to the broad product spectrum, the prices and quotations are differentiated as far as possible, for example by maturity, strike price, etc. 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 respective 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.

8 Pension and Securities Loans Transactions

The securities placed in pensions in repo transactions (real pension transactions) are still reported in the balance sheet and calculated as securities. The liquidity inflow is reported as a liability to credit institutions or customers depending on the counterparty.

The inflow of liquidity created as a result of reverse repos is shown as receivables from banks or customers. The securities included in the pension are not applied.

The bank does not perform false pension transactions.

The reporting of securities loans transactions in the balance sheet takes place at the same time as the actual pension transactions.

9 Financial assets

The Financial Assets balance sheet item comprises all available-for-sale assets. The available-for-sale assets comprise securities (including registered bonds), promissory note loans and participations.

These assets are reported and valued at market value. There are no sufficient valuation parameters for certain unlisted companies with a book value of €41.3 million (2005: €40.4 million) and these companies are therefore valued at ongoing acquisition cost.

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.

10 Shares in companies evaluated at equity

Our participation in the joint venture International Transaction Services GmbH (ITS), which is managed jointly with T-Systems Enterprise Services GmbH, is reported under shares in companies evaluated at equity.

11 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 the banking business. The valuation takes place in accordance with the acquisition cost model.

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. The following useful lives are used as a standard throughout the Group for regular deprecation:

Useful Life in Years	
Hardware	3
Vehicles	6
Construction/operating facilities	10
Furniture	13
Buildings	50

Impairments that exceed wear and tear-related depreciation are considered under extraordinary depreciation. If the reasons for reasons for the extraordinary depreciation cease, appropriate write-ups are made.

In 2006, there was a recovery in the value of property and buildings totalling € 0.2 million (2005: unplanned depreciation €0.2 million) which is disclosed under other expenses (cf. Note 50). The recovery in value took place on the basis of the annual valuation and takes into account the altered economic valuation of real estate. For the purposes of segment reporting, improved valuations were assigned to the segment “central divisions/consolidation“ (cf. Note 54).

Profits/losses from the disposal of property and equipment totalling €0.3 million (2005: €10.2 million) were shown net in Other Income (cf. Note 50). 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.

12 Intangible assets

The only items disclosed under Intangible Assets are standard software. Hardware and other operational and business equipment are valued at cost less regular depreciation. Regular depreciation is distributed on a straight-line basis over the expected useful life of the asset of three to ten years.

13 Leasing

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

14 Liabilities

Liabilities with the exception of financial liabilities held for trading are carried strictly at repayment value. Discounts and premiums are recorded pro rata temporis under interest receivable or payable. Non-interest-bearing paper, such as zero-coupon bonds, is reported at issuance value, grossed up by yield to the balance sheet date.

15 Bonds and Shares issued by the Bank

The bank holds its own bonds only to a limited extent and in accordance with the requirements of IFRS, offsets them against the liabilities items from the issuing of bonds.
The Group does not hold any of the company's own shares as of the end of 2006. During the past financial year 195,023 of the company's own shares were purchased at an average price of €87.34 (2005: €84.68) and sold at an average price of €87.82 (2005: €85.07). As in the previous year, the results of trading in own shares had no material effect. The maximum holding of own shares was 0.73% (2005: 0.08%) of nominal capital.

16 Other Provisions

Pension provisions and uncertain liabilities are reported under provisions.

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method. Within the scope of a Contractual Trust Arrangement (CTA) certain assets were transferred into a trust corporation as collateral for pension obligations and therefore qualified as plan assets within the meaning of IAS 19.7 (cf. Note 15). Actuarial profits and losses from the development of the plan assets and the pensions are reported in equity capital with no effect on profits after the deduction of deferred taxes. The expected income from the plan assets are offset against the expected pension expenses in the profit and loss account.

Provisions for uncertain liabilities are created in the amount of the cash value.

17 Income Tax Claims and Obligations

Current income taxes are calculated in accordance with the tax rates valid for each individual company. Current income tax claims are balanced with the current income tax obligations if the prerequisites for this balancing are met in accordance with IAS 12.

Deferred income taxes are calculated by means of a comparison of the balance sheet valuations of assets and liabilities with the valuations that are used for the taxation of the Group company in question. Deferred tax claims or deferred tax obligations must be considered regardless of when the realignment of the valuations occurs. The deferred taxes are calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred tax rebates and tax provisions will be adjusted accordingly.

18 Share-based Payments

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 (1 to 5 years). In accordance with IFRS 2, this option programme is reported on the balance sheet as an asset-based payment transaction settled by means of equity instruments. The share options are valued at fair value. The personnel expenses derived from this – apportioned to the respective blocking period – are reported in the profit and loss account.

In addition, the paying out of performance-related remuneration components for employees and the Management Board were performed in 2006 partially in cash and for the first time partially by means of the assignment of shares in HSBC Holdings plc. The payout of the share component takes place in three equal instalments in the years 2008 to 2010 and is subject to continued employment with the bank. Reporting is performed as a share-based payment with cash settlement in accordance with IFRS 2; personnel costs are distributed via the vesting period.

19 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 mainly include income from securities, foreign exchange and derivatives business, as well as from special consultancy services (e.g. Corporate Finance). Commission revenue and expenses are considered as affecting profits when the service is completed.

All unrealised and realised trading results are reported in the trading profit. This also includes interest and dividend income alongside price gains/losses, as well as the proportional refinancing costs of the trading divisions.

20 IFRS Regulations Applied

We have made use of the possibility of reporting the actuarial result from pensions in equity capital (IAS 19.93ff) since fiscal year 2005).

The effects of the other standards or interpretations that are to be applied for the first time in 2006 were insignificant.

IFRS 7, Financial Instruments: Disclosures must be taken into account for annual financial statements that begin on 1 January 2007 or later. We will therefore apply IFRS 7 in fiscal year 2007. IFRS 7 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 capital management targets and methods.

IFRS 8, Segment Reporting was published on 30 November 2006 and must be applied to all annual financial statements that begin on or after 1 January 2009. The new standard provides mainly for segment reporting in accordance with the management approach. We anticipate taking the standard into account in fiscal year 2007 and do not expect that the application of the standard will result in any significant amendments to the annual report.

IFRIC 11, Group and Treasury Share Transaction regulates how share option programmes that are granted to the employees of a subsidiary by the parent company are to be reported in the subsidiary company. IFRIC 11 was not applied in advance. We do not expect this application to have any effect.

There are no further interpretations whose application was not yet obligatory in 2006 are of no significance to us.

In order to follow the standard balance sheet regulations for the HSBC group in the valuation of buildings, the calculation method was changed from the new valuation procedure to the acquisition cost procedure in the financial year. The change has led to a reduction in net income for the previous year of €0.5 million, as well as a loss of the valuation reserves in property and equipment and equity. In the previous year, the valuation reserve was €16.1 million before taxes and €9.6 million after taxes.

21 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

22 Cash reserves

in € m	31 Dec 2006	31 Dec 2005
Cash in hand	2.4	2.0
Balances with central banks	433.9	796.6
Total	**436.3**	**798.6**

Balances at central banks are held mainly with the Deutsche Bundesbank and almost exclusively in euros. The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

23 Loans and Advances to Banks

in € m	31 Dec 2006	31 Dec 2005
Current account	521.8	301.1
Money market	3,665.3	2,822.2
of which overnight money	0.0	63.6
of which term money	3,665.3	2,758.6
Reverse repos/securities loans	1,091.2	1,251.6
Other loans and advances	253.0	187.0
Total	**5,531.3**	**4,561.9**
of which German banks	2,003.1	2,140.5
of which foreign banks	3,528.2	2,421.4

The increase in loans and advances (to banks and customers) corresponds with the increase in customer liabilities. Time deposits have undergone a particularly strong increase.
The securities loans item deals with money that we have provided as security for borrowed securities.

24 Loans and Advances to Customers

in € m	31 Dec 2006	31 Dec 2005
Current account	1,092.8	860.9
Money market	943.5	923.2
of which overnight money	237.5	164.4
of which term money	706.0	758.8
Credit accounts	1,122.0	680.4
Reverse repos	72.3	70.9
Other loans and advances	14.8	18.6
Total	**3,245.4**	**2,554.0**
of which German banks	2,456.8	2,016.6
of which foreign banks	788.6	537.4

The increase in loans and advances to customers shows our increasing credit business, not least with our newly acquired customers.

25 Risk provisions in Credit Business

Risk provisions are composed as follows:

in € m	31 Dec 2006	31 Dec 2005
Risk provisions for receivables	17.0	26.1
Provisions for risks from the credit business	10.9	13.3
Risk provisions in Credit Business	**27.9**	**39.4**

The risk provisions for receivables relate exclusively to value adjustments for loans and advances to customers.

Risk provisions in credit business developed as follows:

	Depreciations, write-backs to				Total	
	Individual basis		Portfolio basis			
in € m	2006	2005	2006	2005	2006	2005
Status as at 1.1	**32.9**	**43.6**	**6.5**	**8.7**	**39.4**	**52.3**
Dissolutions	7.1	11.9	0.3	2.2	7.4	14.1
Usage	5.5	3.6	0.0	0.0	5.5	3.6
Additions	1.5	4.5	0.0	0.0	1.5	4.5
Currency differences/transfers	- 0.1	0.3	0.0	0.0	- 0.1	0.3
Status as at 31 Dec	**21.7**	**32.9**	**6.2**	**6.5**	**27.9**	**39.4**

26 Financial Assets held for Trading

in € m	31 Dec 2006	31 Dec 2005
Bonds and other fixed income securities	3,978.9	1,576.8
of which:		
Public issuers:	123.2	100.3
other issuers	3,855.7	1,476.5
of which:		
Listed	2,047.7	1,555.9
non-listed	1,931.2	20.9
Equities and other non-fixed-income securities	859.0	854.6
of which:		
Listed	858.8	691.6
non-listed	0.2	163.0
Marketable assets	1,136.8	1,803.9
Positive market value of derivatives	1,905.8	2,235.3
of which:		
OTC – derivatives	1,326.4	1,859.5
Listed derivatives	579.4	375.8
Total	**7,880.5**	**6,470.6**

The strong increase results primarily from the acquisition of interbank certificates of deposits with a duration of up to three months. The marketable assets are chiefly promissory note loans and registered bonds. The decrease in the positive market value of the derivatives corresponds to the decrease in the negative market value of the derivatives (cf. Note 37).

27 Financial Assets

Financial assets comprise the bank's strategic positions and break down as follows:

in € m	31 Dec 2006	31 Dec 2005
Bonds and other fixed-income securities	929.6	942.6
of which:		
public sector issuers	316.5	303.0
from other issuers	613.1	639.6
of which:		
Listed	864.6	885.6
non-listed	65.0	57.0
Equities	49.2	41.1
Investment certificates	221.7	220.4
Promissory note loans	163.1	200.9
Participations	74.0	67.2
Total	**1,437.6**	**1,472.2**

All financial assets are assigned to the category "available for sale" in accordance with IAS 39. The joint venture reported under financial assets in the previous year will be reported separately from now on.

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

in € m	31 Dec 2006	31 Dec 2005
Bonds and other fixed income securities	35.8	62.7
Equities	4.0	1.6
Investment certificates	25.0	15.8
Promissory note loans	15.0	25.5
Participations	32.2	26.3
Total	**112.0**	**131.9**

28 Shares in Companies evaluated at Equity

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

in € m	**2006**	**2005**
Book value 1 Jan	**0.0**	**0.0**
Additions	0.0	8.2
Share of profit for the financial year	2.5	0.9
Interim profit elimination	0.5	- 9.1
Dividend distribution	- 1.5	0.0
Book value 31 Dec	**1.5**	**0.0**

The partner company T-Systems Enterprise Services GmbH has the right to raise its stake in the joint venture to 80.0% or to return it completely on 31 December 2007.

29 Statement of Changes in Assets

in € m	**Land and Buildings**	**Operational and Business Equipment**	**Property and Equipment**	**Intangible assets**
Acquisition costs 1 Jan 2006	94.1	60.6	154.7	25.8
Additions	0.0	11.0	11.0	4.2
Disposals	0.0	20.7	20.7	0.3
Acquisition costs 31 Dec 2006	94.1	50.9	145.0	29.7
Depreciation 1 Jan 2006	31.5	45.2	76.7	17.9
Planned depreciation	1.3	6.2	7.5	2.8
Unscheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of disposals	0.0	19.4	19.4	0.3
Write-ups	0.2	0.0	0.2	0.0
Depreciation 31 Dec 2006	32.6	32.0	64.6	20.4
Balance sheet value 31 Dec 2006	**61.5**	**18.9**	**80.4**	**9.3**
Balance sheet value 31 Dec 2005	**62.6**	**15.4**	**78.0**	**7.9**

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

30 Income Tax Claims

in € m	31 Dec 2006	31 Dec 2005
Ongoing income tax claims	2.5	1.4
Deferred income tax claims	0.0	0.4
Total	**2.5**	**1.8**

The receivables from ongoing and deferred income taxes relate to foreign taxes. In the previous year, the ongoing income tax claims were reported under other assets.

31 Other Assets

Other assets of €68.6 million (2005: €29.2 million) consist mainly of receivables from fund business of €20.2 million (2005: €14.1 million), the excess from our CTA of €9.8 million (2005: €0.0 million), as well as other taxes of €3.8 million (2005: €1.7 million).

32 Subordinated Assets

in € m	31 Dec 2006	31 Dec 2005
Loans and advances to customers	0.1	0.1
Bonds and other fixed income securities	108.1	58.6
Profit participation certificates	27.3	9.5
Total	**135.5**	**68.2**

33 Repurchase Transactions

At the end of the year securities with a total transaction value of €0.2 million were sold under repurchase agreements (2005: €179.9 million). These securities reached the portfolio by way of repos or lending transactions.

34 Deposits by banks

in € m	31 Dec 2006	31 Dec 2005
Current accounts	549.5	395.2
Money market	765.6	795.1
of which overnight money	136.5	29.2
of which term money	629.1	765.9
Repos/securities loans	206.8	184.3
Other liabilities	180.6	50.1
Total	**1,702.5**	**1,424.7**
of which German banks	634.4	380.8
of which foreign banks	1,068.1	1,043.9

Money that we have received as security for borrowed securities is reported under liabilities from securities loans. As of 31 December 2006, deposits by banks secured by real estate liens amounted to € 21.5 million (2005: € 26.9 million).

35 Customer Accounts

in € m	31 Dec 2006	31 Dec 2005
Current accounts	3,905.2	3,454.2
Money market	4,527.6	3,246.1
of which overnight money	1,238.5	637.1
of which term money	3,289.1	2,609.0
Savings deposits	13.6	14.4
Other liabilities	415.0	424.9
Total	**8,861.4**	**7,139.6**
of which German banks	6,407.7	5,354.6
of which foreign banks	2,453.7	1,785.0

The increase in customer accounts is the result essentially of a strong inflow of funds from institutional customers and investment funds. It corresponds to the increase in receivables from customers and credit institutes.

36 Securitised Debt

Securitised debt includes bonds issued to a total of €29.8 million (2006: €34.6 million). In the previous year, own acceptances and promissory notes in issue were reported. They are now reported under other liabilities.

37 Financial Liabilities held for Trading

in € m	31 Dec 2006	31 Dec 2005
Negative market value of derivatives	1,664.3	2,274.7
Discount certificates, promissory note loans, bonds and warrants	4,692.1	3,588.1
Delivery commitments arising from short sales of securities	120.4	21.1
Total	**6,476.8**	**5,883.9**

The issue and placement of discount certificates and warrants, as well as of structured promissory 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 decrease in the negative market value of the derivatives corresponds to the decreasing positive market value of the derivatives (cf. Note 26).

38 Provisions

in € m	Status 1 Jan 2006	Usage	Dissolution	Additions	Transfers	Actuarial result	Status 31 Dec 2006
Provisions for staff-related expenses	37.8	33.0	0.1	54.0	0.1	0.0	58.8
Provisions for pensions and similar obligations	21.2	9.9	0.0	4.4	4.4	- 9.7	10.4
Provisions for risks from the credit business	13.3	0.0	3.4	1.1	- 0.1	0.0	10.9
Provisions for other taxes	2.0	0.0	0.0	1.0	0.0	0.0	3.0
Other provisions	29.2	7.8	2.7	11.9	- 0.7	0.0	29.9
Provisions	**103.5**	**50.7**	**6.2**	**72.4**	**3.7**	**- 9.7**	**113.0**

The transfers column shows both the additions to plan assets and the change in the plan surplus. Obligations from performance-related remuneration are essentially reported under provisions for staff-related expenses.

Provisions for Pensions and similar Obligations

Various pension payment and benefit regulations exist for employees depending on the date the employee joined the Group as well as on the country of incorporation of the respective Group company.

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.

In addition, some Group companies make contributions to the BVV BVV Versicherungsverein des Bankgewerbes a. G. of to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 3.7 million in the reporting year, as in the previous year.

Provisions for pensions and similar obligations are computed in accordance with actuarial principles using the projected unit credit method. These calculations are performed annually, and are currently based on the following parameters:

in %	**31 Dec 2006**	**31 Dec 2005**
Long-term base interest rate	4.5	4.0
Expected increase in salaries	3.0	3.0
Anticipated pension adjustment	2.0	2.0
Expected inflation rate	2.0	2.0
Expected increase in contribution assessment ceiling for national insurance	2.5	2.5
Expected return on assets	6.0	6.0

Due to lower yields from first-class fixed-interest industrial bonds, the base interest rate was increased to 4.5%.

The expected returns were determined based on the historical average performance of the fund in which the plan assets are invested. 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.
The provision for pensions and similar obligations also includes the obligations from semi-retirement, early retirement and anniversary payments.

Development of Pension Obligations

in € m	2006	2005
Pension obligations as of 1 Jan	**202.8**	**172.9**
Service costs	7.4	4.6
Interest expense	7.4	7.1
Pensions paid	- 9.7	- 9.0
Other allocations and transfers	- 0.2	3.6
Change in actuarial gains and losses	- 10.5	23.6
Pension obligations as of 31 Dec	**197.2**	**202.8**

Breakdown of Pension Obligations

in € m	2006	2005	2004	2003	2002
Pension obligations not financed by funds	**4.8**	**4.8**	**172.9**	**147.3**	**139.2**
Pension obligations financed by funds					
Cash value of Pension Obligations	192.4	198.0	0.0	0.0	0.0
Fair value of plan assets	196.6	181.6	0.0	0.0	0.0
Balance	- 4.2	16.4	0.0	0.0	0.0
of which plan cover shortage	**5.6**	**16.4**	**0.0**	**0.0**	**0.0**
of which plan cover excess	9.8	0.0	0.0	0.0	0.0
Total pension obligations	**10.4**	**21.2**	**172.9**	**147.3**	**139.2**
of which actuarial gains and losses					
from plan assets	0.4	1.2	0.0	0.0	0.0
from pension obligations	- 39.0	- 49.5	- 25.9	- 7.9	- 5.1

Development of the Fair Value of Plan Assets

in € m	2006	2005
Fair value of plan assets as of 1 Jan	**181.6**	**0.0**
Additions/withdrawals	5.4	177.2
Expected income from plan assets	10.4	3.2
Change in actuarial gains and losses	- 0.8	1.2
Fair value of plan assets as of 31 Dec	**196.6**	**181.6**

The actual income from plan assets in the reporting year was €9.6 million (2005: €4.4 million). it is expected that no contributions will be paid into the plan in 2007. The actual contributions to the plan in 2006 were €10.3 million.

Breakdown of the Fair Value of Plan Assets

in € m	2006	2005
Special funds	181.3	162.0
Claims for reinsurance coverage from life insurance policies	11.3	11.2
Closed real estate funds	4.0	3.4
Public funds	0.0	5.0
Fair value of plan assets as of 31 Dec	**196.6**	**181.6**

The cumulative actuarial losses that are recorded in equity capital with no effect on profits amounted to €23.1 million after taxes (2005: €29.1 million). The decrease is the result above all of the increase in the long-term interest rate calculated in the previous year.

The provisions for risks from the credit business include provisions for the risk of loss in connection with endorsement liabilities, sureties and credit commitments. They are part of the risk provisions in the credit business that are noted (Note 25).

The provisions for other taxes mainly include expected payment obligations from the auditing of taxes on commercial capital, salaries, revenue and assets from the previous year.

The remaining provisions include, among other things, provisions for the risk of loss and provisions for uncertain liabilities. Of the dissolutions totalling €2.7 million, €0.7 million relate to trading business.

In the previous year, income tax obligations were reported together with the provisions. They are now reported separately.

39 Income Tax Obligations

in € m	31 Dec 2006	31 Dec 2005
Current income tax liabilities	25.7	80.7
Deferred income tax liabilities	36.3	47.4
Total	**62.0**	**128.1**

Under current income tax liabilities, provisions for income taxes to the fiscal authorities on the basis of the balance sheet for tax purposes are attributed to the fully consolidated group companies; provisions continued to be reported in this area for any income from current and future audits.

As in the previous year, deferred taxation compensation claims are balanced with deferred income tax obligations, if the offsetting prerequisites are in place.

The deferred taxes are our future tax burdens or credits that were formed for the differences between the taxation and balance sheet amounts stated (cf. Note 45).

The deferred income tax claims and obligations are attributable to the following items:

in € m	31 Dec 2006	31 Dec 2005	Change
	Balance sheet recognition		
Trading portfolio*	24.1	29.0	- 4.9
Joint venture	6.0	6.0	0.0
Financial assets	3.9	3.0	0.9
Risk provisions	3.6	2.8	0.8
Share-based payments	3.1	0.0	3.1
Buildings	- 1.0	- 1.1	0.1
Provisions	- 3.3	- 1.4	- 1.9
Pensions	- 8.2	- 9.7	1.5
affecting net income	**28.2**	**28.6**	**- 0.4**
Financial instruments	23.4	37.9	- 14.5
Pensions	- 15.3	- 19.1	3.8
Affecting equity capital	**8.1**	**18.8**	**- 10.7**
Provision for deferred taxes	**36.3**	**47.4**	**- 11.1**

*Balance from valuation differences in all trading activities

The income tax obligations were reported under provisions in the previous fiscal year.

40 Other Liabilities

in € m	31 Dec 2006	31 Dec 2005
Liabilities from other taxes	28.1	20.8
Accrued and deferred items	12.2	15.2
Own acceptances and promissory notes	0.0	10.7
Deferred interest on subordinated liabilities	8.1	7.8
Participatory capital	3.8	2.5
Other	53.2	34.0
Total	**105.4**	**91.0**

Liabilities from other taxes cover income tax liabilities, as well as capital gains tax from customer business to be paid. In addition, in the previous year the other liabilities included liabilities from our share option programme totalling €0.5 million, which is now reported under capital reserves. The previous year's values were adjusted accordingly.

41 Subordinated Capital

in € m	**31 Dec 2006**	**31 Dec 2005**
Subordinated liabilities(bonds, promissory note loans)	304.8	272.3
Participatory capital	135.8	35.8
Total	**440.6**	**308.1**

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or several occasions by 29 May 2011 up to a total amount of €250.0 million. In September 2006, in order to further strengthen the liable equity, the bank issued a registered profit participation certificate in the amount of €100.0 million.

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

Subordinated capital of €434.8 million (2005: €296.6 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to Section 10 para. 5a *Kreditwesengesetz* (KWG - German Banking Act).

For the 2006 financial year, interest payables amount to €13.9 million (2005: € 12.6 million) on subordinated liabilities and to € 3.8 million (2005: €2.5 million) on participatory capital.

Interest and Repayment of Subordinated Liabilities

Interest rate	Nominal value in € m 31 Dec 2006	Nominal value in € m 31 Dec 2005
Up to 5% 5% to 8% Over 8%	133.2 150.0 0.0	107.5 110.4 10.2
Fixed interest rates	283.2	228.1
Variable interest rates	25.0	47.9
Total	**308.2**	**276.0**

Repayment	Nominal value in € m 31 Dec 2006	Nominal value in € m 31 Dec 2005
Up to 1 year 1 to 5 years Over 5 years	15.2 69.6 223.4	10.2 82.6 183.2
Total	**308.2**	**276.0**

42 Equity Capital

As of 31 December 2006 subscribed capital was unchanged at € 70.0 million. As before, this is divided into 26,100,100 shares of no par value. The consideration of share-based payments with settlement in the form of equity instruments led to an increase in capital reserves of €0.5 million, which were reported at €211.4 as of 31 December 2006. The previous year's values were adjusted accordingly.

The Management Board is authorised 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 on the basis of the resolution on authorisation by the Annual General Meeting dated 3 June 2003 and no later than 31 May 2008, exercise their conversion or option rights (contingent capital).

Valuation Reserve for Financial Instruments

As part of retained earnings, the valuation reserve for financial instruments developed as follows:

in € m	2006	2005
Net valuation reserve as of 1 Jan	**93.9**	**92.3**
Disposals (gross)	2.4	- 20.0
Market valuation fluctuations (gross)	- 23.3	35.2
Impairments (gross)	1.1	0.0
Deferred taxes	14.5	- 13.6
Net valuation reserve as of 31 Dec	**88.6**	**93.9**

Equity Capital in accordance with KWG

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

Figures in accordance with KWG	31 Dec 2006	31 Dec 2005
Equity funds in € m	**1,031**	**827**
Core capital	589	525
Supplementary capital	440	302
Tier 3 funds	2	0
Mandatory risk items in € m	**8,394**	**7,191**
Risk assets	6,719	5,591
Market risk items	1,675	1,600
Capital ratios in %		
Capital ratio	12.3	11.5
Core capital ratio	7.0	7.3

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):

Figures in accordance with BIS	31 Dec 2006	31 Dec 2005
Equity funds in € m	**1,041**	**852**
Core capital	585	523
Supplementary capital	454	329
Tier 3 funds	2	0
Mandatory risk items in € m	**8,321**	**7,178**
Risk assets	7,546	6,603
Market risk items	775	575
Capital ratios in %		
Capital ratio	12.5	11.9
Core capital ratio*	7.8	7.9

* 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.

Notes to the Consolidated Profit and Loss Account

43 Net Interest Income

in € m	2006	2005
Interest income	**285.1**	**217.4**
Loans and Advances to Banks	111.2	68.5
Money market business	97.7	59.8
Other interest-bearing loans and advances	13.5	8.7
Loans and advances to customers	112.2	81.7
Money market	43.1	35.3
Other interest-bearing loans and advances	69.1	46.4
Income from financial investments	61.7	67.2
Interest income	51.7	61.1
Dividend income	1.0	1.7
Income from financial investments	9.0	4.4
Interest payable on	**196.5**	**143.7**
Deposits by banks	17.9	10.4
Money market business	12.7	6.9
Other interest-bearing deposits	5.2	3.5
Customer Accounts	159.2	116.2
Money market business	89.5	70.2
Other interest-bearing deposits	69.7	46.0
Securitised Debt	1.7	2.0
Subordinated Capital	17.7	15.1
Net Interest Income	**88.6**	**73.7**

Mainly as a result of the increase in short-term interest rates over the past year, interest income and expenses have increased. At the same time, the pressure on interest margins remained high. Nevertheless it was possible to increase net interest income by €14.9 million to €88.6 million. The reason was mainly increased deposits by our customers, who face high receivables to banks. This positive contribution was able to more than compensate for the decrease in interest income from financial assets.

44 Result from Shares in Companies evaluated at Equity

The result is attributable mainly to our joint venture in International Transaction Services GmbH.

45 Risk Provisions in Credit Business

in € m	2006	2005
Additions	1.5	4.5
Release	7.4	14.1
Direct write-offs and amortisations	1.1	0.0
Recoveries of amounts previously written off	0.4	0.1
Total	**- 5.2**	**- 9.7**

For the second time in a row, the additions to risk provisions in credit business were lower than the releases. This reflects our proven, conservative credit risk management and the revival in the economic situation in Germany.

46 Net Fee Income

in € m	2006	2005
Securities business	182.1	177.9
Foreign exchange and derivatives	47.0	32.3
International services business	13.7	13.5
Issue and structuring of securities business	12.3	9.2
Payments and Cash Management	5.2	5.1
Credit Business	3.8	3.2
Corporate finance	3.7	4.4
Property business	1.7	3.4
Other fee and commission-earning business	12.3	15.4
Total	**281.8**	**264.4**

Net fees and commissions remains the centre of profitability at the bank with a share of 59.2% in operating income. In view of the significantly extended customer base in private and corporate customer business increased net fee income by €17.4 million to €281.8 million. But cooperation with the HSBC Group, which is continually becoming closer is also reflected in this positive development. As a result of incorporation in the HSBC network, it is possible for us to provide our customers with more intensive support and offer them a wider range of products and services.

The increase of €4.2 million in fees in the securities business to €182.1 million is firstly characterised by the continued favourable financial markets, which led to higher revenues in all customer segments. On the other hand, our subsidiary INKA (International Kapitalanlagegesellschaft mbH), as a master KAG, succeeded in increasing the assets under management and therefore the fees for funds administration further by means of successful acquisitions.

Fees from foreign exchange and derivatives business also increased significantly. In this area, it was possible to generate increased revenue from the brokering of transactions with HSBC to our customers. The brokering of transactions with HSBC offers our customers the advantage that this does not create any balance-sheet related limitations on business size or complexity. Instead we can ensure comprehensive performance by means of recourse to the global handbooks of HSBC Groups. As a result, we act as brokers in interest and foreign exchange transactions for a large portion of business to the HSBC Group and receive the corresponding fee income. In exchange, we have decreased our proprietary trading activities in the interest and foreign currency business accordingly.

We were even able to exceed the previous year's value in the issue and structuring of securities business, among other things on the basis of the placement of a further structured participation rights issues for medium-sized companies – H.E.A.T Mezzanine 2006. On the other hand, our earnings in corporate finance and real estate business decreased. The other fee business still includes fees from the placement and management of private equity and alternative investments as a significant factor.

Overall, net fees and commissions exceeded net interest income by a factor of 3.2 (2005: 3.5).

The fees results include fee expenses totalling €17.5 million (2005: €7.8 million for the processing of securities transactions by our Joint Venture ITS.

47 Trading Profit

in € m	**2006**	**2005**
Equity and equity/index-related derivatives	80.1	46.1
Bonds and interest rate derivatives	13.1	18.1
Foreign exchange	10.8	10.1
Total	**104.0**	**74.3**

The trading profit developed into the second strong income pillar after net fee income. The increase from €29.7 million to €104.0 million was not significantly beyond our expectations, but exceeded the record result from the previous year by 40.0%.

The distribution of the trading profit by individual product types shows that we are increasingly concentrating on equity and equity/index derivatives, while we are increasingly falling back on the HSBC Group global trading books in the areas of interest and derivative trading.

Equity and equity/index derivative trading therefore improved with growth of €34.0 million or 73.8% to €80.1 million. The issuing of retail products under our brand HSBC Trinkaus Investment Products was able to make a significant contribution here. While the very positive result from the previous year in the interest-related trading areas was not achieved, there was a slight improvement in the result from foreign currency trading.

48 Total Administrative Expenses

in € m	**2006**	**2005**
Staff costs	189.7	186.7
Wages and salaries	164.8	158.1
Social security contributions	16.0	15.8
Retirement benefits	8.9	12.8
Other administrative expenses	98.6	88.4
Depreciation of property and equipment and amortisation of intangible assets.	10.3	12.5
Total	**298.6**	**287.6**

The other administrative expenses include expenses from leasing payments totalling €8.0 million (2005: €5.5 million).

The administrative expense increased moderately by €11.0 million or 3.8% to €298.6 million. This was contrasted with the following effects in staff expenses: The expense for wages and salaries, including profit-related payments increased by 4.2%. On the other hand, expenses for retirement benefits decreased. The reason for that is that in the second half of 2005, a significant portion of our pension obligations and corresponding plan assets were transferred into a contractual trust arrangement (CTA).

The other administrative expenses increased by €10.2 million or 11.5% to €98.6 million. This is in lien with the budget, which takes into account our strategic growth path accordingly. Above all, this means a continuing high level of expenses in information technology, as well as increased marketing activities. As long as we are able to manage the growth course profitably, we will budget for continued increasing expenses.

The decline in deprecation is based on the sale of the license for our securities processing system GEOS to our joint venture ITS at the end of 2005.

The expense/earnings ratio in the year under report increased slightly from 60.8% to 61.8%.

The expenses for retirement benefits are broken down as follows:

in € m	**2006**	**2005**
Expenses for performance-based plans	4.4	8.5
of which: Current service costs	7.4	4.6
of which: Interest expense	7.4	7.1
of which: Expected income from plan assets	- 10.4	- 3.2
Expenses for performance-based plans	3.7	3.7
Other expenses for retirement benefits	0.8	0.6
Total	**8.9**	**12.8**

49 Net income from Investment Securities

On balance, it was sales of financial assets generated a realization profit of €3.1 million. This includes both transactions in both fully consolidated special funds and in the bank's strategic book. An impairment of €1.1 million was necessary for an equity position that has been held long-term. Otherwise, the result from the securing of the strategic interest position of the bank with derivatives that do not meet the hedge criteria of IAS 39 is reported in net income from investment securities. Net income from investment securities in 2005 included in particular profits from the divestiture of investment securities and from changes in the group of consolidated companies.

In the previous year, the result from investment securities was reported under other income and expenses.

50 Other Income

in € m	2006	2005
Other operating income	6.4	6.7
Other operating expenses	7.4	5.9
Other operating income	**- 1.0**	**0.8**
Remaining income	1.0	10.2
Remaining expenses	0.5	2.0
Remaining income	**0.5**	**8.2**
Other Income	**- 0.5**	**9.0**

The other operating income essentially includes €1.5 million in lease income and €2.0 million from the dissolution of other provisions and other income of €2.9 million, for example from property management. Other operating expenses, in particular those for additions to the other provisions, however, more than compensate for this income.

The result from the previous year includes a special effect from the proportional profit from the sale of our license to the securities processing system GEOS to International Transaction Services GmbH totalling €10.2 million. In the year under report, on the other hand, other income remains in line with expectations.

51 Income Tax

in € m	2006	2005
Current taxes	74.9	86.5
of which relating to other periods	3.0	3.7
Current taxes from the change in valuation differences with time limitations	0.0	-10.4
Deferred taxes from changes in tax rates	0.0	0.0
Total	**74.9**	**76.1**

As in the previous year, the corporation tax rate for profits received and distributed will be 25 % in 2006. 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 %. Taking trade income tax into account, combined taxes on income for 2006 were unchanged at 40.4 %. This rate was also used in calculating deferred taxes. Income that is subject to taxation in Luxembourg, the tax rate is 29.6%.

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

in € m	**2006**	**2005**
Profit before tax	189.5	193.5
Income tax rate (%)	40.4	40.4
Imputed income tax on the year's profit before tax	**76.5**	**78.1**
Variation of tax rate on income from foreign companies	- 2.4	- 2.7
Effect of tax-free income and of non-deductible expenses pursuant to Section 8 b KStG	- 6.3	- 7.4
Taxes for previous years	3.0	3.7
Other	4.1	4.4
Reported income taxes	**74.9**	**76.1**

52 Calculation of Operating Profit

in € m	2006	2005	Change in € m	Change in%
Interest income	285.1	217.4	67.7	31.1
Income expense	196.5	143.7	52.8	36.7
Net interest income	88.6	73.7	14.9	20.2
Risk provisions	- 5.2	- 9.7	4.5	- 46.4
Net interest income after risk provisions	93.8	83.4	10.4	12.4
Result from shares in companies evaluated at equity	2.5	0.9	1.6	> 100.0
Fee income	520.4	415.7	104.7	25.2
Fee expense	238.6	151.3	87.3	57.7
Net fee income	281.8	264.4	17.4	6.6
Trading Profit	104.0	74.3	29.7	40.0
Wages and salaries	189.7	186.7	3.0	1.6
Other administrative expenses	108.9	100.9	8.0	7.9
Total administrative expenses	298.6	287.6	11.0	3.8
Other operating income	- 1.0	0.8	- 1.8	> 100.0
Operating profit	**182.5**	**136.2**	**46.3**	**34.0**
Net income from investment securities	6.5	49.1	- 42.6	- 86.8
Other income/expenses	0.5	8.2	- 7.7	- 93.9
Profit before tax	**189.5**	**193.5**	**- 4.0**	**- 2.1**
Income Tax	74.9	76.1	- 1.2	- 1.6
Profit after tax	**114.6**	**117.4**	**- 2.8**	**- 2.4**

Operating profit includes the operating income and operating expenses posted under other income and expenses respectively (Note 50). A breakdown of operating profit by business segment is shown in segment reporting (Note 54).

53 Notes to the Cash Flow Statement

IAS 7 (Cash flow Statements) requires all companies to draw up a cash flow statement. However, the value of the information it provides, as part of the annual accounts of financial institutions, is relatively limited. It shows movements in cash and cash equivalents arising from additions and disposals in the Group over the course of the financial year.

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net 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 the previous year, the cash and cash equivalents of €436.3 million (2005: 798.6 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 euros. 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 € 114.6 million (20085: € 117.4 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, €180.2 million amounts to (2005: € - 9.2 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash flow from Investment Activities

Spending on property and equipment and intangible assets totalled € 15.2 million in the 2006 financial year (2005: €16.2 million). As in 2005, the bulk of this expenditure went on upgrading our IT capacities. Sales of property and equipment realised €1.4 million (2005: €38.1 million) for the Group. In the previous financial year, sales and purchases of financial investment instruments realised a net profit of €-0.9 million (2005: €28.9 million).

Cash Flow from Financing Activities

Cash flow from financing activities includes the dividend of €65.3 million for the 2006 financial year (2005: €58.7 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report.

Other Notes

54 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. 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, real estate advisory services and family office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

Corporate Banking

The corporate banking division of HSBC Trinkaus & Burkhardt offers large and medium-sized companies a wide spectrum of professional services tailored to meet individual needs. These include basic services for various landing and deposit services, as well as the comprehensive domestic and foreign payment transaction service (PCM = payments and cash management). In addition, we offer sophisticated specialised services such as interest and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients

HSBC Trinkaus & Burkhardt provides its institutional clients, namely fund-gathering institutions, with 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, e.g. to guarantee the value of large investment portfolios.

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 well as the results of asset liability management. As in the previous year, this segment includes in addition the earnings contributions from securities processing for financial services providers. It also includes adjustments to the consolidated results.

Segment reporting by business division can be broken down as follows for the years 2006 and 2005:

in € m		Private Banking	Corporate Banking	Institutional Clients	Proprietary Trading	Central Divisions/ Consolidation	Total
Net Interest Income	2006	11.7	32.7	1.8	3.7	38.7	88.6
	2005	10.7	27.3	1.6	2.9	31.2	73.7
Risk provisions	2006	1.0	4.7	0.2	0.0	- 11.1	- 5.2
	2005	0.8	3.8	0.2	0.1	- 14.6	- 9.7
Net Interest Income after	2006	10.7	28.0	1.6	3.7	49.8	93.8
risk provisions	2005	9.9	23.5	1.4	2.8	45.8	83.4
Net income from shares in							
companies evaluated	2006					2.5	2.5
at equity.	2005					0.9	0.9
Net fees and commissions	2006	80.2	77.6	122.6	7.2	- 5.8	281.8
	2005	71.2	72.4	98.6	4.4	17.8	264.4
Trading profit	2006		- 0.4	4.3	88.4	11.7	104.0
	2005		0.2	4.2	75.5	- 5.6	74.3
Income after	2006	90.9	105.2	128.5	99.3	58.2	482.1
risk provisions	2005	81.1	96.1	104.2	82.7	58.9	423.0
Total administrative expenses	2006	53.9	63.5	72.2	42.7	66.3	298.6
	2005	48.2	57.7	59.0	37.0	85.7	287.6
Net other operating expenses and income	2006					- 1.0	- 1.0
	2005					0.8	0.8
Operating profit	**2006**	**37.0**	**41.7**	**56.3**	**56.6**	**- 9.1**	**182.5**
	2005	**32.9**	**38.4**	**45.2**	**45.7**	**- 26.0**	**136.2**
Other income/expenses from financial	2006					6.5	6.5
investments	2005					49.1	49.1
Other income/expenses	2006					0.5	0.5
	2005					8.2	8.2
Profit	2006	37.0	41.7	56.3	56.6	- 2.1	189.5
before tax	2005	32.9	38.4	45.2	45.7	31.3	193.5
Change from previous year in %		12.5	8.6	24.6	23.9		- 2.1

The segment results for 2006 were calculated on the basis of more comprehensive cost distribution between the customer divisions and own account trading than previously. As a result, the segment results for 2005 were recalculated in accordance with the same system in order to enable comparison between the segment results for each year.

It was possible to further expand on the previous year's results in all four segments in 2006 despite some fluctuations during the year, which shows the balanced structure and development of the business activities of the bank.

In comparison with the previous year, the private banking segment achieved positive income growth from the expansion of security business with a focus on equity and investment shares. The clear increase in volumes that we administer for our customers made a significant contribution to this result.

Despite continued strong pressure on margins in the credit business, it was possible to increase net interest income in corporate banking business by means of a significant increase in the volume of deposits. In addition, corporate banking business managed a notable increase in fee income, among other things from asset management products and interest derivatives.

The highest contribution of all customer segments to the bank's income was provided by business with institutional customers. The improvement in earnings was mainly the result of asset management and share business, which was also very successful. The HSBC Group products contribute an increasingly higher portion.

The own-account trading was also able to significantly increase the contribution to income. Clear increases in income can be seen in continued very successful equity and derivatives trading, while foreign exchange and derivatives business were not quite able reach the level of the previous year. A high portion of this positive business development came from the issuing of retail products such as warrants and certificates under our brand HSBC-tip.de.

The significant increase in financial assets in the previous year resulted mainly from 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 foundation of a Contractual Trust Arrangement (CTA) to secure pension obligations. These special factors did occur alongside any extraordinary transactions in the year under report.

The significant causes of the increase in administrative expense in comparison to the previous year are the growth of the bank and its increasing customer base and among other things include increased costs for information technology and other types of materials costs. It was possible to partially absorb additional cost burdens from a significantly increased number of employees as a result of the growth that has already taken place and that is budgeted by means of structured changes. In addition, the setting up of the CTA in the third quarter of the previous year and the transfer of securities processing to ITS, which has been performed since October of the previous year as a joint venture with T-Systems Enterprise Services GmbH.

Segmental income is broken down into net interest income, result from shares in companies evaluated at equity, fee income and trading income The difference between the standardised risk-related costs charged on 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 if possible according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

		Private Banking	Corporate Banking	Insti-tutional Clients	Proprie-tary Trading	Central Divisions/ Consoli-dation	Total	Ad-justments	Reporting date
Cost-income	2006	58.7	57.8	56.1	43.0		61.8		61.8
ratio in %	2005	58.9	57.8	56.5	44.7		60.8		60.8
Assets* in € m	2006	721.0	1,861.0	1,150.7	4,540.1	8,200.5	16,473.3	2,203.1	18,676.4
	2005	800.0	1,581.0	980.9	3,969.6	7,388.4	14,719.9	1,228.2	15,948.1
Liabilities in € m*	2006	2,803.0	3,001.0	1,069.3	1,968.0	6,648.6	15,489.9	2,301.6	17,791.5
	2005	2,476.0	2,446.0	824.1	2,656.5	5,177.7	13,580.3	1,533.2	15,113.5
Mandatory risk	2006	1,129.5	3,507.4	312.0	249.2	2,771.9	7,970.0	424.0	8,394.0
items* in € m	2005	1,095.1	2,858.0	345.3	191.0	2,708.3	7,197.7	- 6.7	7,191.0
Equity capital allocated	2006	139.2	258.1	98.3	95.2	76.6	667.4	217.5	884.9
on balance sheet* in € m	2005	132.8	220.9	95.3	87.6	99.4	636.0	198.6	834.6
Staff	2006	193	180	202	77	967	1,619		1,619
	2005	179	180	177	81	910	1,527		1,527
Pre-tax return	2006	26.6	16.2	57.3	59.5		28.0		28.0
on equity in %	2005	24.8	17.4	47.4	52.2		30.4		30.4

*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 divisions cost efficiency. This figure improved year-on-year in the areas of private banking, institutional customers and proprietary trading as a result of their proportionately higher increases in income in comparison with cost increases. It remained the same for corporate banking business.

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

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

The rise in loans and advances to customers in the corporate clients division was accompanied by the expansion of mandatory risk items. In the area of institutional customers, higher risk assets from sales trading portfolios were more than compensated for by decreasing off-balance-sheet items. In the area of private customers, mandatory risk items increased because the reduction in customer receivables was exceed by the significant increase in the net borrowing position for which an investment in the interbank market and therefore higher risk assets were imputed. In Proprietary Trading, the number of market risk items tying up equity capital was increased as a result of the increased trading portfolio

In line with movements in operating profits, there was a notable improvement in the return on equity in all segments, in some cases significantly exceeding the 20% mark before tax. The higher level of commitment of equity capital as a result of the strong increase in mandatory risk items prevented any improvement of the return on equity despite the improved result.

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:

in € m		Germany	Luxembourg	Others	Consolidation	Total
Net interest income	2006	78.9	9.7			88.6
	2005	63.2	10.5			73.7
Risk provisions	2006	- 6.0	0.8			- 5.2
	2005	- 10.5	0.8			- 9.7
Net income from shares in						
companies evaluated at	2006	2.5				2.5
equity.	2005	0.9				0.9
Net fees and commissions	2006	257.8	21.0	3.0		281.8
	2005	243.1	18.8	2.5		264.4
Trading profit	2006	100.1	3.9			104.0
	2005	72.2	2.1			74.3
Total administrative expenses	2006	282.1	15.7	0.8		298.6
	2005	271.9	15.0	0.7		287.6
Net income	2006	169.3	17.9	2.3		189.5
before tax	2005	175.3	16.4	1.8		193.5
Cost-income	2006	63.3	45.6	24.8		61.8
ratio in %	2005	62.2	46.5	29.2		60.8
Mandatory risk	31 dec 2006	8,077.0	627.0	1.0	- 311.0	8,394.0
items	31 dec 2005	7,031.0	568.0	0.0	- 408.0	7,191.0
Balance sheet total	31 dec 2006	17,217.8	2,164.4	2.6	- 708.4	18,676.4
	31 dec 2005	15,126.1	1,712.9	2.1	- 893.0	15,948.1

55 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:

in € m	31 Dec 2006	
	Fair Value	Book Value
Deposits by banks (from the valuation of long-term promissory note loans)	1,704.0	1,702.5
Customer accounts (from the valuation of long-term promissory note loans)	8,864.8	8,861.4
Securitised debt	29.7	29.8
Subordinated capital	444.0	440.6

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

56 Holdings in Foreign Currency

On 31 December 2006 assets denominated in foreign currency totalled €2,560.9 million (2005: €1,833.0 million) and the corresponding liabilities totalled €2,599.17 million (2005: €2,232.7 million). As in the previous year, the bulk of these assets and liabilities were in US dollars.

57 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. The risk of default is well spread across the various sectors. As of 31 December 2006, 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 Dec 2006		31 Dec 2005	
	in € m	%	in € m	%
Credit loans	9,744.2	48.7	7,972.7	48.9
Reverse repos	342.4	1.7	1,322.5	8.1
Securities	6,114.6	30.6	3,295.0	20.2
Derivatives	2,029.8	10.1	1,773.8	10.9
Bank guarantees and letters of credit	1,615.6	8.1	1,491.4	9.1
Pension and securities loans transactions	85.5	0.4	384.3	2.4
Participations	74.0	0.4	67.2	0.4
Total	**20,006.1**	**100.0**	**16,306.9**	**100.0**

Breakdown of credit volumes by Sector

	31 Dec 2006		31 Dec 2005	
	in € m	%	in € m	%
Banks and financial institutions	14,447.3	72.2	11,095.4	68.1
Companies and economically independent professionals	4,161.0	20.8	3,852.5	23.6
Public sector	843.7	4.2	920.4	5.6
Economically non-independent private clients	554.1	2.8	438.6	2.7
Total	**20,006.1**	**100.0**	**16,306.9**	**100.0**

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

	31 Dec 2006		31 Dec 2005	
	in € m	**%**	**in € m**	**%**
Germany	2,298.8	55.2	3,031.4	78.7
Other European Union (including Norway and Switzerland)	1,191.3	28.6	633.8	16.5
Rest of Europe	13.4	0.3	3.9	0.1
Africa	15.6	0.4	5.4	0.1
North America	352.0	8.5	89.1	2.3
South America	221.8	5.3	63.9	1.7
Asia	65.8	1.6	23.6	0.6
Oceania	2.3	0.1	1.4	0.0
Total	**4,161.0**	**100.0**	**3,852.5**	**100.0**

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

	31 Dec 2006		31 Dec 2005	
	in € m	**%**	**in € m**	**%**
Up to € 1.000,000	161.9	3.9	98.4	2.5
Up to € 5,000,000	478.2	11.5	608.5	15.8
Up to € 10,000,000	393.7	9.5	580.4	15.1
Up to € 25,000,000	864.4	20.8	1,012.0	26.3
Up to € 50,000,000	732.4	17.6	557.8	14.5
Up to € 103,129,000 (previous year €82,634,000 *)	392.7	9.4	122.2	3.1
Over €103,129,000 * (previous year, €82,634,000 *)	1,137.7	27.3	873.2	22.7
Total	**4,161.0**	**100.0**	**3,852.5**	**100.0**

*Large exposure credit limit pursuant to the *Kreditwesengesetz* (KWG - German Banking Act)

58 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 (Bundesverband deutscher Banken e.V – BdB). 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

in € m		Nominal amounts with a residual maturity of up to 1 year	1 year to 5 years	over 5 years	Nominal amounts Total 2006	Nominal amounts Total 2005
OTC products	FRAs	5	0	0	5	0
	Interest rate swaps	4,063	12,664	10,793	27,520	31.840
	Interest rate options –purchases	1,356	4,429	5,936	11,721	7.600
	Interest rate options –sales	554	4,063	6,789	11,406	7.947
	Forward transactions	572	0	0	572	649
Traded products	Exchange-interest rate futures	0	0	5,503	5,503	5.365
	Interest rate options	0	0	0	0	0
Interest rate transactions		**6.550**	**21,156**	**29,021**	**56,727**	**53,401**
OTC products	Forward exchange contracts	22,937	1,055	121	24,113	20.709
	Cross currency swaps	125	34	56	215	39
	Currency options – purchases	2,012	120	0	2,132	2.796
	Currency options – sales	1,640	98	0	1,738	2.834
Traded products	Foreign exchange futures	0	0	15	15	22
Currency transactions		**26.714**	**1,307**	**192**	**28,213**	**26,400**
OTC products	Equity/index options – purchases	19	16	170	205	8
	Equity/index options - sales	8	1	18	27	4
Traded products	Equity/index futures	0	0	950	950	854
	Equity/index options	6,782	3,637	31	10,450	9.052
Equity/index transactions		**6.809**	**3,654**	**1,169**	**11,632**	**9,918**
OTC products	Credit default swaps – purchases	10	10	0	20	20
	Credit default swaps – sales	10	10	0	20	20
Credit derivatives		**20**	**20**	**0**	**40**	**40**
Total financial derivatives		**40.093**	**26,137**	**30,382**	**96,612**	**89,759**

Breakdown of the derivatives business by market value

in € m		Positive market value with a residual maturity of			Positive market value		Negative market value	
		up to 1 year	1 year to 5 years	over 5 years	Total 2006	Total 2005	Total 2006	Total 2005
OTC products	FRAs	0	0	0	0	0	0	0
	Interest rate swaps	39	183	325	547	1,165	563	1.158
	Interest rate options –purchases	11	47	287	345	267	0	0
	Interest rate options –sales	0	0	0	0	0	344	320
	Forward transactions	0	0	0	0	0	0	0
Interest rate transactions		**50**	**230**	**612**	**892**	**1,432**	**907**	**1,478**
OTC products	Forward exchange contracts	265	22	2	289	327	290	331
	Cross currency swaps	1	1	1	3	2	5	1
	Currency options – purchases	51	21	0	72	94	0	0
	Currency options - sales	0	0	0	0	0	41	87
Currency transactions		**317**	**44**	**3**	**364**	**423**	**336**	**419**
OTC products	Equity/index options – purchases	25	3	41	69	5	0	0
	Equity/index options - sales	0	0	0	0	0	56	34
Equity/index transactions		**25**	**3**	**41**	**69**	**5**	**56**	**34**
OTC products	Credit default swaps – purchases	1	0	0	1	0	0	0
	Credit default swaps – sales	0	0	0	0	0	1	0
Credit derivatives		**1**	**0**	**0**	**1**	**0**	**1**	**0**
Total financial derivatives		**393**	**277**	**656**	**1,326**	**1,860**	**1,300**	**1,931**

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 Dec 2006		31 Dec 2005	
		in € m	**%**	**in € m**	**%**
OECD	Central governments	0	0.0	0	0.0
	Banks	1,113	84.0	1,560	83.9
	Financial institutions	95	7.2	108	5.8
	Others	115	8.7	190	10.2
Non-OECD	Central governments	0	0.0	0	0.0
	Banks	1	0.0	0	0.0
	Financial institutions	0	0.0	0	0.0
	Others	2	0.1	2	0.1
Total		**1,326**	**100.0**	**1,860**	**100.0**

59 Breakdown by Residual Maturity

in € m		**Up to 3 months**	**> 3 months to 1 year**	**> 1 year**	**Without fixed duration**	**Total**
Loans and Advances to banks	31 Dec 2006	5,503.0	28.3	0.0	0.0	5,531.3
	31 Dec 2005	4,503.1	58.7	0.1	0.0	4,561.9
Loans and advances to customers	31 Dec 2006	2,618.8	291.8	334.8	0.0	3,245.4
	31 Dec 2005	1,923.2	479.4	151.4	0.0	2,554.0
Financial assets held for trading	31 Dec 2006	7,880.5	0.0	0.0	0.0	7,880.5
	31 Dec 2005	6,470.6	0.0	0.0	0.0	6,470.6
Financial assets	31 Dec 2006	258.5	93.7	740.5	344.9	1,437.6
	31 Dec 2005	87.5	121.0	935.0	328.7	1,472.2
Other assets	31 Dec 2006	54.5	4.3	0.0	9.8	68.6
	31 Dec 2005	10.6	6.9	11.7	0.0	29.2
Total	**31 Dec 2006**	**16,315.3**	**418.1**	**1,075.3**	**354.7**	**18,163.4**
	31 Dec 2005	**12,995.0**	**666.0**	**1,098.2**	**328.7**	**15,087.9**

in € m		Up to 3 months	> 3 months to 1 year	> 1 year	Without fixed duration	Total
Deposits by	31 Dec 2006	1,644	30.2	28.2	0.0	1,702.5
banks	31 Dec 2005	1,341	24.6	58.3	0.0	1,424.7
Customer accounts	31 Dec 2006	8,417.2	99.7	330.9	0.0	8,847.8
(excluding savings deposits)	31 Dec 2005	6,700.8	178.9	245.5	0.0	7,125.2
Securitised debt	31 Dec 2006	0.0	19.8	10.0	0.0	29.8
	31 Dec 2005	0.0	24.6	10.0	0.0	34.6
Financial liabilities held for trading	31 Dec 2006	6,476.8	0.0	0.0	0.0	6,476.8
	31 Dec 2005	5,883.9	0.0	0.0	0.0	5,883.9
Provisions	31 Dec 2006	0.0	58.8	54.2	0.0	113.0
	31 Dec 2005	0.0	42.1	61.4	0.0	103.5
Other liabilities	31 Dec 2006	30.4	52.2	22.8	0.0	105.4
	31 Dec 2005	49.0	31.0	11.0	0.0	91.0
Subordinated capital	31 Dec 2006	5.1	10.1	425.4	0.0	440.6
	31 Dec 2005	10.2	0.0	297.9	0.0	308.1
Total	**31 Dec 2006**	**16,573.6**	**270.8**	**871.5**	**0.0**	**17,715.9**
	31 Dec 2005	**13,985.7**	**301.2**	**684.1**	**0.0**	**14,971.0**

Financial assets and liabilities held for trading are reported in accordance with the shortest duration irrespective of the actual maturity. The breakdown by residual maturity for derivatives in accordance with their legal maturity can be found in Note 58.

60 Contingent Liabilities and Other Obligations

in € m	31 Dec 2006	31 Dec 2005
Contingent liabilities from guarantees and indemnity agreements	1,581.2	1,491.4
Irrevocable loan commitments	3,701.1	2,706.2
Total	**5,282.3**	**4,197.6**

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

Our liability to make further contributions arising from our interest in Liquiditätskonsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we bear proportional liability for the fulfilment of further contribution obligations directly enforceable on the other shareholders, who are members of the *Bundesverband deutscher Banken e.V* (BdB - National Association of German Banks).

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 2007 financial year.

On the balance sheet date, commitments arising from leasing and rental contracts totalled €35.7 million (2005: €27.2 million).

in € m	**31 Dec 2006**	**31 Dec 2005**
> 1 year	21.4	16.7
of which: Leasing	8.6	6.4
1 year to 5 years	12.6	9.7
of which: Leasing	4.6	0.7
Over 5 years	1.7	0.8
of which: Leasing	0.0	0.0
Total commitments from rental and leasing contracts	**35.7**	**27.2**

61 Assets Pledged as Collateral

Securities with a nominal value of €503.3 million (2005: €1,052.5 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, 878.3 million (2005: € 1, 637.3 million) were available to secure peak rediscounting facilities.

62 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:

in € m	**31 Dec 2006**	**31 Dec 2005**
Trust assets	**374.1**	**361.3**
Loans and advances to banks	3.5	5.0
Loans and advances to customers	250.4	159.3
Participations	120.2	197.0
Trust liabilities	**374.1**	**361.3**
Deposits by banks	4.5	83.9
Customer Accounts	369.6	277.4

63 Participating Interests

HSBC Trinkaus & Burkhardt AG 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 equity capital in € thousand	Net earnings 2006 in € thousand
Banks and similar companies				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	29,799
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	78,387	11.171
HSBC Trinkaus Investment Management Ltd,	Hong Kong	100.0	488	1.879
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	19,556	4.056
International Transaction Services GmbH[1]	Düsseldorf	51.0	17,495	2.495
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	- 70
HSBC Investments Deutschland GmbH[2]	Düsseldorf	100.0	2,601	14,328
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	3,332	842
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	- 1,541
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	90	80
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	27	5
Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH	Düsseldorf	100.0	122	6
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	71	5
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	68	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	56	3
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	288	3,519
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,072	2.007
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	138
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	3	2
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	11,701	- 639
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,742	336
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	767	252
Other companies				
HSBC Bond Portfolio GmbH [3]	Frankfurt am Main	100.0	91	41
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	3,550	17
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	26	2

[1] consolidated at equity
[2] Name changed, previously HSBC Trinkaus Capital Management GmbH
[3] Name changed, previously HSBC Bond Portfolio Geschäftsführungs GmbH

HSBC Trinkaus & Burkhardt AG also has an indirect 15.1 % holding in Sino AG, Düsseldorf, which has total equity of €5,182,000 and net income of €2,608,000 (as of 30 September 2006 due to the company's unusual financial year).

64 Letter of Comfort

HSBC Trinkaus & Burkhardt AG 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 AG given in Note 63. Moreover, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general partners (if individual legal persons) of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided the managing partners are natural persons.

65 Staff

Annual average	**2006**	**2005**
Staff outside Germany	130	128
Staff in Germany	1,446	1,485
Total (including trainees)	**1,576**	**1,613**
of whom:		
Female	694	706
Male	882	907

The annual average for 2005 includes employees of International Transaction Services GmbH (ITS) until the change to at equity consolidation on 1 October 2005.

66 Auditors' Fees

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

in € m	**2006**	**2005**
Audit of the annual accounts	0.7	0.7
Other confirmation or valuation services	0.1	0.0
Tax consultancy services	0.0	0.1
Other services	0.3	0.3
Total	**1.1**	**1.1**

67 Business Relationships with Companies and Persons Defined as "Related Parties"

In accordance with our "best of both worlds" strategy, we continued to extend our business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are performed at market prices and usually without security. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall, the consolidated profit and loss account includes €103.0 million in income and €21.8 million in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies.

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

in € m	Affiliated companies		Companies in which a share is held		Joint venture companies	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Loans and advances to banks	919.6	784.4	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	26.7	66.0	35.4	39.3
Total	**919.6**	**784.4**	**26.7**	**66.0**	**35.4**	**39.3**

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

in € m	Affiliated companies		Companies in which a share is held		Joint venture companies	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Deposits by banks	813.1	651.6	0.0	0.0	0.0	0.0
Customer Accounts	1.5	5.3	5.5	17.8	12.2	11.7
Total	**814.6**	**656.9**	**5.5**	**17.8**	**12.2**	**11.7**

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

in € m	Securities		Derivatives	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Financial assets held for trading	1.930.1	0.0	606.3	363.7
Financial liabilities held for trading	0.0	0.0	360.6	307.7

Emoluments of Members of the Executive Bodies

The main features of the remuneration system are presented in the group management report. The following overview shows the remuneration of the individual members of the Management Board for financial year 2006 including the payments received until the change in the company's legal form in their capacity as personally liable shareholders.

in € thousand	Fixed payments	Variable payments	Share-based payments	Miscellaneous payments*	Total payments
Andreas Schmitz	592.9	2,480.0	366.6	22.7	**3,462.2**
Paul Hagen	474.3	2,480.0	366.6	29.8	**3,350.7**
Dr. Olaf Huth	474.3	2,480.0	366.6	42.8	**3,363.7**
Carola Gräfin von Schmettow	474.3	2,480.0	366.6	13.7	**3,334.6**
Total	**2,015.8**	**9,920.0**	**1,466.4**	**109.0**	**13,511.2**

* The other payments consist mainly of payments for the assumption of supervisory mandates within the Group, use of company cars, insurance contributions, as well as other benefits equivalent to cash, which are to be taxed individually.

The payout of performance-related components for 2006 is performed partially in cash and partially by means of an assignment of shares in HSBC Holdings plc. The cash component is taken into account in the table. The payout of the share component takes place in three equal instalments in the years 2008 to 2010 and is subject to continued employment with the bank. In accordance with IFRS 2, the share component totalling €4.1 million is not to be included in expenses for 2006 and is therefore not included in the table above.

As part of the conversion, the personally liable shareholders were granted a total one-time sum of €3.0 million in shares in HSBC Holdings plc. as an incentive for continued employment in the Management Board of the AG. The payout takes place in three equal instalments in the years 2006 to 2008 and is subject to continued employment with the bank. €1.5 million of this is to be recorded as an expense for 2006 and taken into account in the table above.

Reserves for pension obligations in accordance with IFRS totalling €6,586,913.00 (2005: € 6,899,543.00) have been created for former managing partners and their surviving dependents.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 5 June 2007, the emoluments of the Supervisory Board will be €1,064,831.62 (2005: €976,140.00) and the emoluments for the Shareholders' Committee, which was dissolved as part of the transfer to AG, totalled €208,505.00. The members of the Management Board received emoluments totalling €332,100.00. In addition, payments were made to members of the Supervisory Board during the financial year for consultancy services performed; these total around €201,278.88 (2005: €243,328.88). There are no separate pension obligations for Supervisory Board members. The general rules for employees or former personally liable shareholders apply to pension obligations to employee representatives, as well as the former personally liable shareholders of the bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt AG and their surviving dependents and its legal predecessor Trinkaus & Burkhardt KG totalled €4,519,106.23 (2005: €4,535,343.94). Reserves for pension obligations in accordance with IFRS totalling €49,099,503.00 (2005: € 54,576,864.00) have been created for former managing partners and their surviving dependents.

None of the Managing Partners acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other remuneration based on the banks own shares 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 68. Minor use was made of this right.

There were no advances and loans to members of the Management Board and the Supervisory Board as at 31 December 2006 (2005: €0.0). As in the previous year, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

68 Share-Based Payments

Breakdown of the Share Option Programme

Type	Date granted	Fair value of each option right on date granted in €	Exercise price in €	Number of options 31 Dec 2006	Number of options 31 Dec 2005
SAYE 2003 (3J/5J)	1 Aug 2003	2.8143 / 2.8944	7.68	68,369	177,331
SAYE 2004 (3J/5J)	1 Aug 2004	2.9064 / 3.2060	9.75	93,664	95,880
SAYE 2005 (3J/5J)	1 Aug 2005	2.9518 / 2.9952	9.66	159,400	167,314
SAYE 2006 (1J/3J/5J)	1 Aug 2006	2.5400 / 2.6000 / 2.6700	11.01	100,769	0
Total				**422,202**	**440,525**

The fair value of the options is calculated uniformly within the group by HSBC Holdings plc. The exercising of the share options by employees generally takes place on 1 August of the financial year. The options of employees that are exercised later are of lesser importance.

The share price used in case of immediate exercise of the options on 1 August 2006 for HSBC shares was €14.06.

Development of the Share Option Programme

	Type	Number of options	Weighted exercise price in €
Status as at 1 Jan2006	SAYE 2003 -2005	440,525	8.88
Granted during the year	SAYE 2006	100,769	11.01
Exercised during the year	SAYE 2003 (3J)	102,351	7.68
Realised during the year	SAYE 2003-2006	16,741	8.89
Status as at 31 dec 2006	SAYE 2003 (5J) -2006	422,202	9.68
of which outstanding options		417,365	-
of which options that can be exercised		4,837	-

The staff expenses to be taken into account in the year under report are €0.4 million (2005: €0.2 million).

Breakdown of the Share Programme

Performance-related payments for employees and the Management Board were performed in 2006 partially by means of the assignment of shares in HSBC Holdings plc. It can be broken down as follows:

	Performance-related Pay in HSBC Shares	
	for financial year 2006	**for financial year 2005**
due in March 2008	2.7	0.0
due in March 2009	2.7	0.0
due in March 2010	2.7	0.0
Total	**8.1**	**0.0**

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

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

70 Mandates held by Members of the Management Board

As of 31 December 2006, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit in the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz (spokesman)	
Position	**Company**
Member of the Supervisory Board	**HSBC Investments Deutschland GmbH, Düsseldorf**
Deputy Member of the Administrative Board	**L-Bank, Karlsruhe**

Paul Hagen	
Position	**Company**
Chairman of the Supervisory Board	**International Transaction Services GmbH, Düsseldorf**
Member of the Supervisory Board	**Falke-Bank AG i.L., Düsseldorf**
Member of the Supervisory Board	**Internationale Kapitalanlagegesellschaft mbH, Düsseldorf**
Deputy Chairman of the Administrative Board	**HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg**
Member of the Administrative Board	**HSBC Trinkaus Investment Managers S.A., Luxembourg**
Member of the Advisory Board	**RWE Trading GmbH, Essen**

Dr. Olaf Huth	
Position	**Company**
Deputy Chairman of the Supervisory Board	**HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf**
Member of the Supervisory Board	**HSBC Investments Deutschland GmbH, Düsseldorf**
Member of the Supervisory Board	**Internationale Kapitalanlagegesellschaft mbH, Düsseldorf**
Chairman of the Administrative Board	**HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg**
Deputy Chairman of the Administrative Board	**HSBC Trinkaus Investment Managers S.A., Luxembourg**

Carola Gräfin von Schmettow	
Position	**Company**
Chairman of the Supervisory Board	**HSBC Investments Deutschland GmbH, Düsseldorf**
Chairman of the Supervisory Board	**Internationale Kapitalanlagegesellschaft mbH, Düsseldorf**
Member of the Supervisory Board	**DBV Winterthur Lebensversicherung AG, Wiesbaden**
Member of the Board of Directors	**HSBC Investments (France) S.A., Paris, France**
Chairman of the Administrative Board	**HSBC Trinkaus Investment Managers S.A., Luxembourg**
Member of the Administrative Board	**HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg**

71 Mandates held by Other Employee

As of 31 December 2006, the following employees sit on the following legally formed supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Head of Division)	
Position	**Company**
Member of the Supervisory Board	**Internationale Kapitalanlagegesellschaft mbH, Düsseldorf**

Dr. Rudolf Apenbrink	
Position	**Company**
Member of the Supervisory Board	**Internationale Kapitalanlagegesellschaft mbH, Düsseldorf**
Member of the Administrative Board	**HSBC Trinkaus Investment Managers S.A., Luxembourg**

Bernd Franke	
Position	**Company**
Member of the Board of Directors	**HSBC Securities Services S.A., Luxembourg**

Dr. Detlef Irmen	
Position	**Company**
Member of the Supervisory Board	**International Transaction Services GmbH, Düsseldorf**

Dr. Manfred von Oettingen	
Position	**Company**
Member of the Supervisory Board	**HSBC Investments Deutschland GmbH, Düsseldorf**

Hans-Joachim Rosteck	
Position	**Company**
Member of the Administrative Board	**HSBC Trinkaus Investment Managers S.A., Luxembourg**

Ulrich W. Schwittay	
Position	**Company**
Deputy Chairman of the Supervisory Board	**HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf**

72 Other Mandates held by Supervisory Board Members

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

Dr. Sieghardt Rometsch	
Position	**Company**
Deputy Chairman of the Supervisory Board	**APCOA Parking AG, Stuttgart**
Member of the Supervisory Board	**Düsseldorfer Universitätsklinikum, Düsseldorf**
Member of the Supervisory Board	**HSBC Bank Polska S.A., Warschau, Poland**
Member of the Supervisory Board	**Lanxess AG, Leverkusen**
Member of the Board of Directors	**HSBC Private Banking Holdings (Suisse) S.A., Geneva, Switzerland**
Member of the Administrative Board	**Management Partner GmbH, Stuttgart**

Stephen Green	
Position	**Company**
Chairman of the Board of Directors	**HSBC Bank plc, London, England**
Chairman of the Board of Directors	**HSBC Holdings plc, London, England**
Deputy Chairman of the Board of Directors	**HSBC North America Holdings Inc., New York, USA**
Member of the Board of Directors	**HSBC Private Banking Holdings (Suisse) S.A., Geneva, Switzerland**
Member of the Board of Directors	**HSBC France, Paris, France**
Member of the Board of Directors	**The Hong Kong & Shanghai Banking Corporation Limited, Hong Kong SAR**

Prof. Dr. h.c. Ludwig Georg Braun	
Position	**Company**
Chairman of the Supervisory Board	**IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund**
Member of the Supervisory Board	**Aesculap Management AG, Tuttlingen**
Member of the Supervisory Board	**Frankfurter Allgemeine Zeitung GmbH, Frankfurt a.M.**
Member of the Supervisory Board	**Stihl AG, Waiblingen**
Chairman of the Advisory Board	**Aesculap AG & Co.KG, Tuttlingen**
Member of the Advisory Board	**Stihl Holding AG & Co. KG, Waiblingen**
Member of the Foundation Council	**Carl-Zeiss-Stiftung, Heidenheim/Jena**
President of the Administrative Board	**B. Braun Milano S.p.A., Milan, Italy**
Vice-president of the Administrative Board	**B. Braun Holding AG, Lucerne, Switzerland**
Vice-president of the Administrative Board	**B. Braun Medical AG, Lucerne, Switzerland**
Member of the Administrative Board	**B. Braun Medical Inc., Bethlehem, USA**
Member of the Administrative Board	**B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia**
Member of the Administrative Board	**B. Braun Medical International S.L. Barcelona, Spain**
Member of the Administrative Board	**B. Braun Medical S.A. Barcelona, Spain**
Member of the Administrative Board	**B. Braun of America Inc., Bethlehem, USA**
Member of the Administrative Board	**B. Braun Surgical S.A. Barcelona, Spain**
Member of the Administrative Board	**Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main / Erfurt**
Member of the Administrative Board	**Wilh. Werhahn KG, Neuss**

Charles-Henri Filippi	
Position	**Company**
Member of the Board of Directors	**Altadis S.A., Madrid, Spain**
Member of the Board of Directors	**HSBC Asset Management Holdings (France), Paris, France**
Member of the Board of Directors	**HSBC Bank plc, London, England**
Member of the Supervisory Board	**HSBC Private Bank France, Paris, France**

Wolfgang Haupt	
Position	**Company**
Chairman of the Supervisory Board	**HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf**
Chairman of the Supervisory Board	**Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf**
Chairman of the Supervisory Board	**Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf**
Chairman of the Supervisory Board	**Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf**
Member of the Supervisory Board	**Pfleiderer AG, Neumarkt**

Harold Hörauf	
Position	**Company**
Chairman of the Supervisory Board	**Börse Düsseldorf AG, Düsseldorf**
Chairman of the Supervisory Board	**Trinkaus Secondary Zweitausendsechs GmbH & Co KGaA, Düsseldorf**
Member of the Supervisory Board	**BVV Versorgungskasse des Bankgewerbes e.V., Berlin**
Member of the Supervisory Board	**BVV Versicherungsverein des Bankgewerbes a.G., Berlin**

Dr. Otto Graf Lambsdorff	
Position	**Company**
Chairman of the Supervisory Board	**Iveco Magirus AG, Ulm**
Member of the Supervisory Board	**Deutsche Lufthansa AG, Frankfurt am Main/Cologne**

Prof. Dr. Ulrich Lehner	
Position	**Company**
Member of the Supervisory Board	**E.ON AG, Düsseldorf**
Chairman of the Board of Directors	**The DIAL Company, Scottsdale, USA**
Member of the Board of Directors	**Ecolab Inc., St. Paul, USA**
Member of the Administrative Board	**Novartis AG, Basle, Switzerland**

Dr. Siegfried Jaschinski	
Position	**Company**
Chairman of the Supervisory Board	**LEG Landesentwicklungsgesellschaft Baden-Württemberg, Stuttgart**
Chairman of the Board of Trustees	**Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart**
Chairman of the Administrative Board	**LRP Landesbank Rheinland-Pfalz, Mainz**
Member of the Administrative Board	**DekaBank Deutsche Girozentrale, Frankfurt am Main**

73 Publication

The annual report will be released for publication on 29 March 2007. The release for publication was approved by the Management Report in its meeting on 6 March 2007.

Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement, the statements of changes in capital position and cash flows, the notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB, is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be 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, 14 February 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Becker	Kügler
German Public Auditor	German Public Auditor