Annual Report 2008

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2008	2007	Change in %
Results in €m			
Operating revenues	589.3	535.9	10.0
Net loan impairment and other credit risk provisions	4.5	–3.5	>100.0
Administrative expenses	384.2	334.0	15.0
Operating profit	200.6	205.4	–2.3
Profit before taxes	138.2	207.2	–33.3
Tax expenses	48.6	63.2	–23.1
Net profit for the year	89.6	144.0	–37.8
Balance sheet figures in €m			
Total assets	22,205.7	21,066.9	5.4
Shareholders' equity	955.0	968.7	–1.4
Ratios			
Cost:income ratio of usual business activity in %	72.9	62.1	–
Return on equity before tax in %	15.2	24.1	–
Net fee income in % of operating revenues	59.0	59.4	–
Funds under management and administration in €bn	87.2	90.1	–3.2
Employees	2,238	2,101*	6.5
Share information			
Number of shares issued in million	26.1	26.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	3.49	5.52	–36.8
Share price as at 31.12. in €	89.0	114.0	–21.9
Market capitalisation in €m	2,323.9	2,975.4	–21.9
Regulatory ratios/ratios pursuant to BIS**			
Tier 1 in €m	754	636	18.6
Regulatory capital in €m	1,151	1,056	9.0
Risk position in €m	8,588	9,606	–10.6
Tier 1 ratio in %	8.8	6.6	–
Equity ratio in relation to risk position in %	13.4	11.0	–

* including ITS
** after the adoption of the accounts

Annual Report 2008

HSBC Trinkaus & Burkhardt

Date of issue: 2 April 2009

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Contents

Ladies and Gentlemen,

2008 was a satisfactory year for HSBC Trinkaus, a good one even compared to the relevant competition. We can say this despite the fact that the 2008 financial year will forever remain associated with the term "financial crisis". The result achieved by our Bank shows that gearing our business model towards sustainability has paid off. For us, conscientious management means being aware of the risks not only in bad times, but to the same degree in good times.

At € 200.6 million, operating profit was only just lower than the record level to date reached the previous year, namely by 2.3%. It is remarkable that we were able to report the best quarterly result for the year in the fourth quarter with an operating profit of € 67.0 million.

Profit before taxes for the full year fell by 33.3% to € 138.2 million as a result of various impairments – but without any accounting aids – corresponding to a return on equity of 15.2%.

The Management Board and the Supervisory Board proposed to the Annual General Meeting the distribution of an unchanged dividend of € 2.50. Allowing for the allocation to retained earnings, the capital ratio and Tier 1 ratio was 13.4% and 8.8%, respectively. This means that the Bank clearly exceeds the levels required by the market and the supervisory authorities.

HSBC Trinkaus is traditionally in a very good liquidity position and has even been able to improve it substantially in these difficult market conditions. HSBC Trinkaus & Burkhardt AG has an AA rating making it, like in the previous year, the best rated private commercial bank in Germany. This was last confirmed by the Fitch Ratings agency in January 2009.

As the situation on the German banking market gets worse, the virtues and strengths shown by HSBC Trinkaus come into their own more than ever: consistent strategy and personnel together with proven relationship management geared exclusively to the clients' benefit as well as pronounced risk awareness. True to our claim that we want to grow with our clients and not with our risks.

We shall continue to offer our clients the "best of both worlds" within the framework of the HSBC Group: the continuity, professionalism and individualism of a private bank combined with the international service capacity of one of the few really global financial services providers. Thanks to this unique combination in the German banking landscape, we have succeeded not only in strengthening the commitment of many of our clients in recent years, but also in gaining a large number of new clients. Our clients are now benefiting from the relative strength of HSBC Trinkaus in difficult times as well.

A look at the individual segments confirms the success of our business model. In the Private Banking segment, where we acquired both new customers and expanded existing client relationships, we were able to clearly benefit from the fact that we are regarded as a safe haven. It can be seen that the owners of large family assets appreciate our solidity and financial standing in particular. Our corporate clients, who are internationally oriented as a rule, recognise how valuable the combination of our global network and personal service is to them. We have been able to win over a large number of new clients and increase the volume of deposits not least due to HSBC's capital strength. In the Institutional Clients segment we have intensified the links between the various institutional sales teams, thus guaranteeing the improved and integral servicing of our institutional clients and making it

easier to market the HSBC product range. We were particularly successful in turbulent areas such as the money market and forex trading and our retail derivatives business also gave an extremely positive performance.

In the Asset Management segment, there was a stable trend in business with institutional investors, despite the difficult environment. The HSBC Group's liquidity funds, which are characterised by a high degree of security and attractive returns, experienced a strong inflow of funds. In Austria and the countries of Central and Eastern Europe we are concentrating on the sale of HSBC's global mutual funds.

In view of the distortions on the financial markets, we are anticipating no or low growth at best for the banking services market in Germany and the large western industrial nations for the years ahead. It will be seen in the coming months whether the measures and bail-out packages introduced by the governments and communities of states are sufficient. However, one thing is certain: a recessionary real economy as well as unstable stock markets which are quoting way below their highs seen in the previous cycle will make the earnings situation in the German finance and credit industry even tighter.

Thanks to our conservative stance within the framework of a proven business model and our integration into HSBC's global network, we are well prepared for these changes. We are convinced that we will be able to gain additional market shares, despite the surplus capacities in the market. We will focus primarily on the existing customer base in order to master the difficult times which lie ahead of us together on a partnership basis.

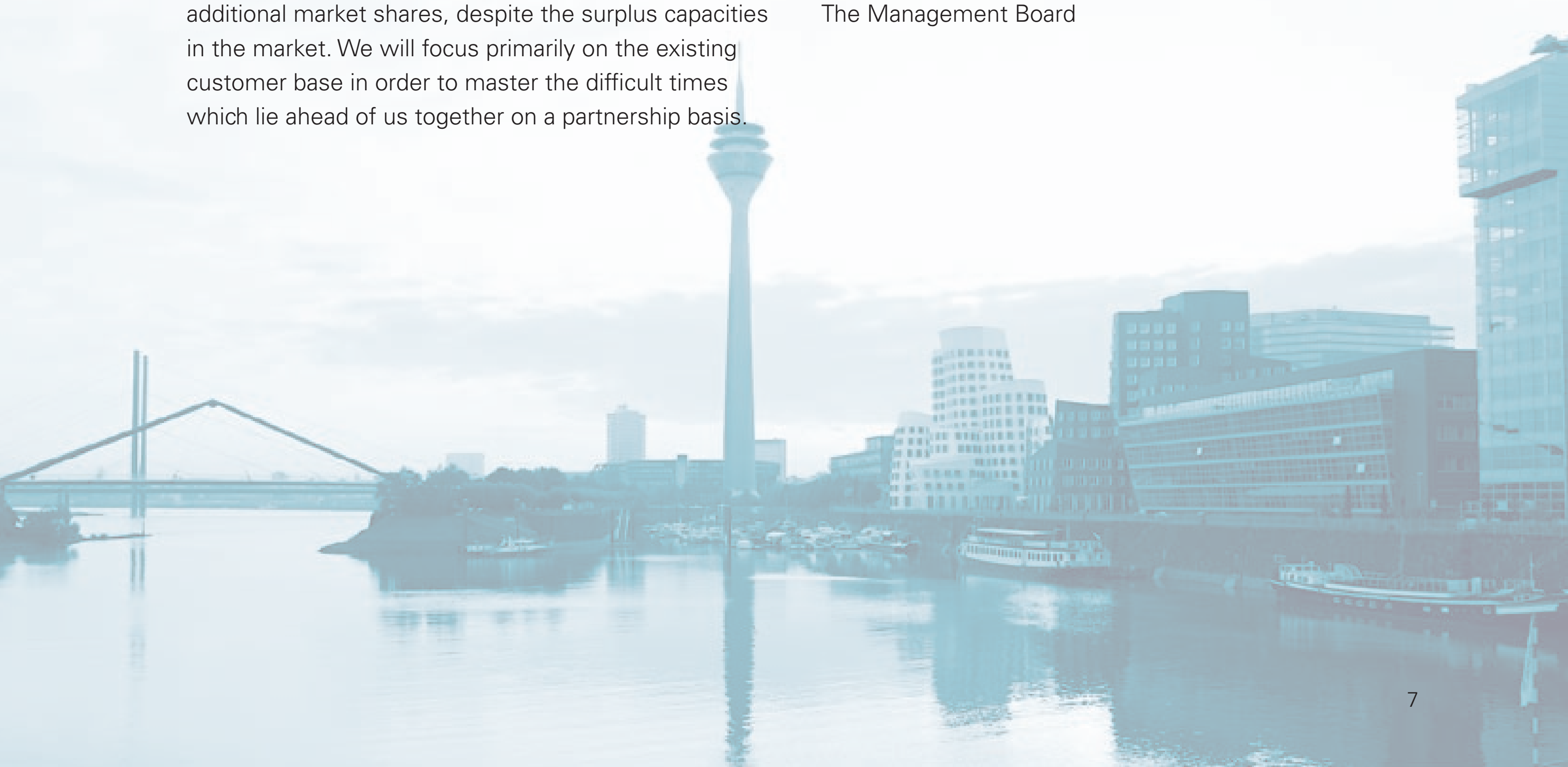
New client relationships are in order if they are geared towards long-term cooperation in the sense of a core banking connection which is profitable on both sides.

Our employees are the authors of our success. The competence, commitment and initiative of each and every one of them form the basis of our business activity. We plan to promote them in a difficult environment as well by again making wide-ranging investments in our employees' qualifications. The success of our business activity is based on significantly lower fluctuation compared to the industry average as well as the strong identification of our employees with the Bank and its business model. Whereas the past five years were also characterised by the continuing increase in the number of our employees on account of the growth in business, HSBC Trinkaus is now concerned with coming through this crisis well with the existing workforce. Not only lasting client relationships, but also lasting employment relationships represent the best preventive measure in times of crisis and the guarantee for profitable growth in what will hopefully soon be better market conditions.

Finally, we would like to thank our clients and shareholders for the trust they have placed in us, our business partners for their support and our employees for their constructive cooperation and commitment.

Yours sincerely,

The Management Board



Executive Bodies

Executive Bodies of HSBC Trinkaus & Burkhardt AG




Düsseldorf
Baden-Baden Berlin Frankfurt am Main
Hamburg Munich Stuttgart

Management Board

Andreas Schmitz, Chairman
Carola Gräfin v. Schmettow
Paul Hagen
Dr. Olaf Huth

HSBC Trinkaus is in a unique position in the German banking landscape: private bank since 1785 and at the same time part of one of the world's largest banking groups – HSBC.

The highly-personalised service of a private bank meets the financial security and global network provided by one of the world's best capitalised and most profitable banks, the HSBC Group. We guarantee direct local access to sophisticated financial services, exclusive market information and not least first-class contacts in 86 countries.

Executive Committee
Florian Fautz
Manfred Krause
Trevor Gander

Whether wealthy private clients, discerning corporate clients or experienced institutional clients – personal continuity, expertise, individual servicing and flat hierarchies characterise the service offered by our Bank. This claim is and shall remain our maxim.

Our virtues as a Bank with a history going back more than 220 years prove themselves in difficult times in particular: the sustainability of our business model, the long-term client relationships extending over generations and not least the responsible handling of risks. The trust our clients place in us is based on this philosophy.

We excel in the traditional banking business. We also focus on ambitious financial services for solving complex problems, both nationally and internationally. We develop individually tailored concepts for our clients and combine them with innovative products and services.

The assertion of this claim is guaranteed by our employees. They are creative, highly committed and have outstanding product and servicing expertise which is constantly being promoted further. The motivation and loyalty of our staff create the basis for our success.

Our business model has proven itself and we can show major expertise in our core lines of business. We face the future well prepared. It is and shall remain our goal to further expand our market position and grow with our clients. We remain who we are. Our clients can rely on this at all times.

Supervisory Board

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

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

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

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

Deniz Erkman*, Krefeld
Bank employee

Dr. Hans Michael Gaul, Düsseldorf

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

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

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

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

Oliver Honée*, Essen
Bank employee

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

Dr. jur. Otto Graf Lambsdorff, Bonn
Lawyer

Professor Dr. Ulrich Lehner, Düsseldorf
Chairman of the Managing Committee,
Henkel KGaA (until April 2008),
Member of the Shareholders' Committee,
Henkel AG & Co. KGaA (from April 2008)

Jörn Wölken*, Lohmar
Bank employee

* Employees' representative

Advisory Board

Dr. jur. Otto Graf Lambsdorff,
Chairman

Professor Dr. Gerd Assmann, FRCP,
Member of the Management Board,
Assmann-Stiftung für Prävention

Dr. Simone Bagel-Trah,
Member of the Supervisory Board and Shareholders' Committee,
Henkel AG & Co. KGaA

Dr. Olaf Berlien (from April 2008),
Member of the Management Board,
ThyssenKrupp AG,
Chairman of the Management Board,
ThyssenKrupp Technologies AG

Professor Dr. rer. nat. Dr. med. Dr. h. c. Uwe Bicker (from March 2008),
Chairman of the Supervisory Board,
Siemens Healthcare Diagnostics Holding GmbH

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

Baron Wolf von Buchholtz

Albert H. K. Büll,
Entrepreneur and shareholder,
B&L Group

Walter P. J. Droege,
Droege International Group AG

Heinrich Johann Essing,
Managing Director,
HEC Vermögensverwaltung GmbH

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

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

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

Dr. Franz Wilhelm Hopp

Professor Dr. Dr. h.c. Anton Kathrein,
Managing Partner,
KATHREIN-Werke KG

Dr. Karl-Ludwig Kley,
Managing Partner,
Chairman of the Managing Committee,
Merck KGaA

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

Professor Dr.-Ing. E.h. Dipl.-Ing. Berthold Leibinger,
Chairman of the Supervisory Board,
Trumpf GmbH + Co. KG

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

Udo van Meeteren

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

Ludwig Merckle,
Managing Director,
VEM Vermögensverwaltung GmbH

Dr. Markus Michalke,
Managing Director,
MIC Asset Management GmbH

Karsten Müller-Uthoff,
Managing Director,
Ärzteversorgung Niedersachsen

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

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

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

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

Dr. Marcus Schenck (from February 2008),
Member of the Management Board,
E.ON AG

Dr. Ulrich Schröder,
Chairman of the Management Board,
KfW Bankengruppe

Dr. Botho von Schwarzkopf (from February 2008),
Managing Partner,
Pfeifer & Langen IHKG

Professor Dennis J. Snower, Ph. D. (from April 2008),
President of the Kiel Institute for the World Economy

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

Thomas Unger,
Member of the Management Board,
Metro AG

Professor Dr.-Ing. Dieter H. Vogel,
Managing Partner,
Lindsay Goldberg Vogel GmbH

Werner Wenning (until July 2008),
Chairman of the Management Board,
Bayer AG

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

Group Management Report

Structure and Management

The Group

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

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) SA Luxembourg	HSBC Global Asset Management (Deutschland) GmbH [1)] Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC Trinkaus Investment Managers SA Luxembourg	HSBC Global Asset Management (Österreich) GmbH Vienna	Joachim Hecker Grundbesitz KG Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	HSBC Trinkaus Real Estate GmbH [2)] Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxemburg KG Düsseldorf
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Trinkaus Family Office GmbH Düsseldorf	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	Trinkaus Private Equity Management GmbH Düsseldorf	Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH Düsseldorf
International Transaction Services GmbH Düsseldorf		

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

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

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

Constitution of the Company

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

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

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

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

In accordance with the resolution passed by the Annual General Meeting on 17 June 2008, the Management Board has the right to buy and sell its own shares for the purpose of securities trading, but only at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined, on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10%. The number of shares bought for this purpose may not amount to more than 5% of the company's share capital at the end of each day. This authorisation is valid until 30 November 2009.

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

Basic Features of the Compensation System for the Executive Bodies

The Supervisory Board has delegated its responsibility for determining the compensation of Management Board members to the Personnel Committee of the Supervisory Board. The members of the Personnel Committee of the Supervisory Board in the 2008 financial year were Dr. Sieghardt Rometsch (Chairman), Harold Hörauf and Stuart Gulliver. The Personnel Committee met five times in the 2008 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and a variable component as well as individual guaranteed pension payments. The fixed amounts are paid in twelve equal monthly instalments and examined annually by the Personnel Committee. There is no obligation to amend the fixed compensation. The variable component is stipulated by the Personnel Committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as a combination of both. The cash component amounts to at least 50% of the variable compensation. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The shares allocated will no longer be transferred in three equal amounts, but in one amount in early 2012. The transfer of the variable compensation is subject to continued service for the Bank at the time of transfer. No share options are granted to the members of the Management Board of the Bank.

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

The compensation structure for members of the Supervisory Board is governed in the Articles of Association of HSBC Trinkaus & Burkhardt AG. In addition to the reimbursement of their expenses and the turnover tax accruing on Supervisory Board activities, each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the Deputy Chairman double this compensation. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the amounts stated, provided the respective committee has met at least once in the financial year. If a member of the Supervisory Board holds several offices, he/she only is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The compensation of members of the Supervisory Board in the 2008 financial year is reported under Note 68 of our consolidated accounts Business Relationships with Companies and Persons Defined as Related Parties.

The Business Divisions

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

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)

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

Central Functions B

Paul Hagen
Management Board

Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Management Board

Private Banking

Division II

Andreas Schmitz
Management Board

Syndicate/Issuing Business

Florian Fautz
Member of the Executive Committee

Investment Banking

Manfred Krause
Member of the Executive Committee

Corporate Banking
Foreign Business

Division III

Carola Gräfin v. Schmettow
Management Board

Institutional Clients
Asset Management
Securities Services

Division IV

Carola Gräfin v. Schmettow
Management Board

Global Markets

Division V

Paul Hagen
Management Board

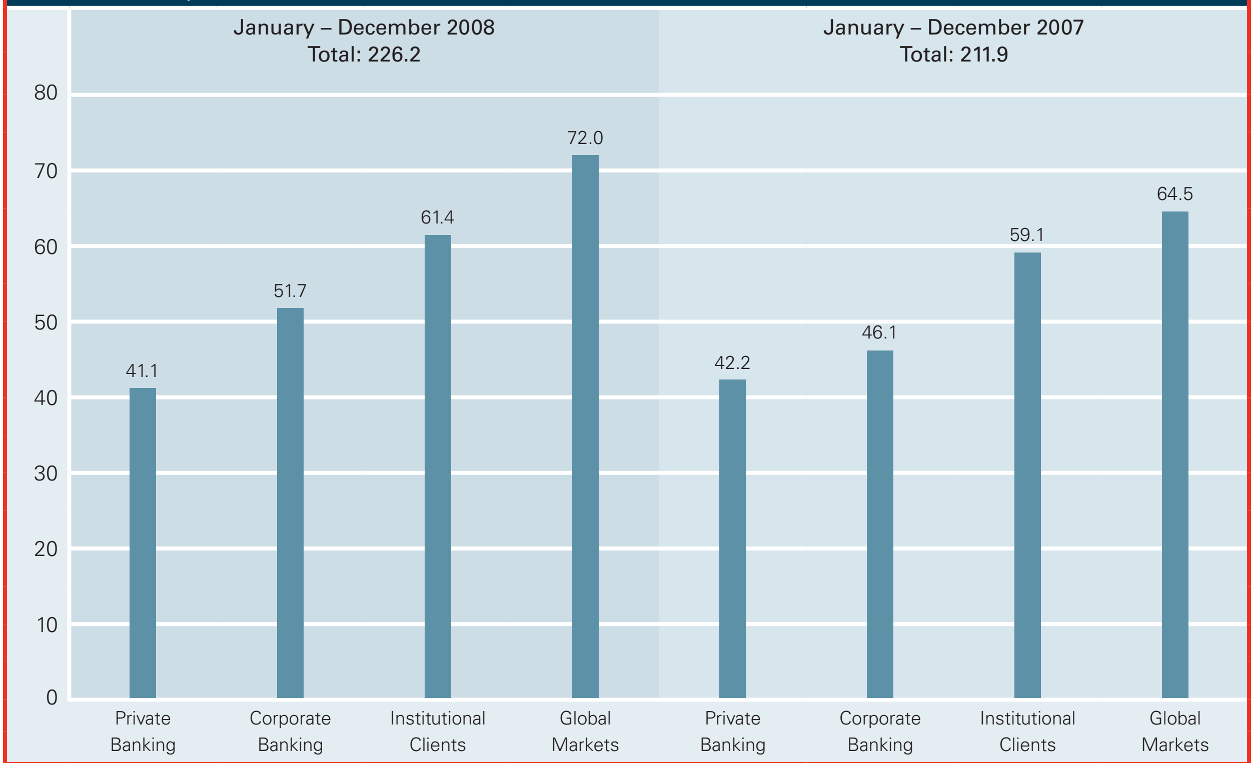
Operations
Business Process Development
Information Technology
Trading Systems
Securities Services

Trevor Gander
Member of the Executive Committee

Credit
Operational Risk

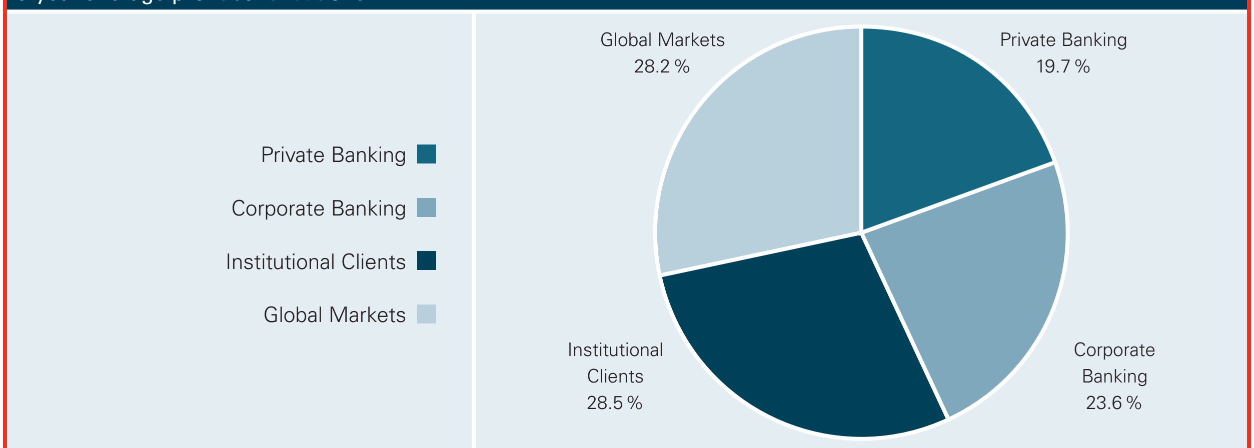
Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial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

Contributions to profit in €m



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

5-year average profit contributions



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

Strategic Direction

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

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

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

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

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

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

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

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

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

- We concentrate on the target groups of wealthy private clients, corporate clients and institutional clients and we aim to become a core banking connection for all our clients, provided there is a balanced risk/earnings profile.

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

- Our trading activities serve primarily to support the client segments and provide a comprehensive product offer. Risk limits and trading strategies are constantly geared towards the Bank's capacity to assume risk.

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

- We are constantly expanding our service offer in the securities business for clients and for other financial institutions. We offer highly-qualified services at competitive prices via our subsidiaries International Transaction Services GmbH (ITS) for securities settlement as well as Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) for fund administration. Both subsidiaries have significant market shares. Added to this are the Bank's services as a depositary bank and in global custody as well as HSBC Global Asset Management's asset management offers in Germany and Austria.

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

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

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

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

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

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

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

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

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

The 2008 Financial Year

The Economic Environment

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

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

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

Profitability

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

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

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

The individual items of the income statement developed as follows:

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

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

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

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

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

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

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

The Asset Situation

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

HSBC Trinkaus' balance sheet is still characterised by very high levels of customer deposits which account for more than 50% of total assets and almost three times our client lending business. Thanks to this outstanding liquidity position, we can easily compensate for the decline in trading assets. We are faced with completely new challenges in the interbank market as many institutions have only been able to secure their survival by means of government rescue measures in the meantime, and not all of the problems have yet been revealed. We have therefore invested part of our growing liquidity surplus in our financial assets. These consist largely of eligible bonds or promissory note loans issued by German federal states and can therefore be used for creating liquidity on a very short-term basis. Short-term realisability and eligibility is also an important decision criterion in the trading books. Our interest rate trading books include no positions resulting from acquisition financing or other transactions for which there is no longer a market today. The Bank has constantly avoided so-called toxic products. Nevertheless, the final quarter of the year under report and the beginning of 2009 in particular show clearly that the financial market crisis has also led to enormous spread widening with respect to bonds of German public-sector issuers as governments world-wide are having a substantial influence on the valuation of other public-sector securities via state-guaranteed bank bonds. The market values of both foreign exchange transactions and interest rate derivatives in the trading book rose significantly in the year under report on account of the major moves in the markets.

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

The Financial Position

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

Since 1 January 2008, we have been calculating the regulatory capital requirements according to the rules of the German Solvency Regulation (Solvabilitätsverordnung), via which the Basel II framework was adopted into national law. HSBC Trinkaus uses the IRB approach for this. According to Basel II, it is required for the first time that liable equity capital is committed for operational risks as well. This burden is set against relief with respect to the inclusion of loans, also in the trading books, in particular where there is good credit quality.

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

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

Outlook for 2009

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

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

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

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

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

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

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

In the past, we always regarded a cost:income ratio ranging between 65% and 70% in terms of operating profit as adequate for our business model as a universal bank with a wide range of products for our clients. The more favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. For the current financial year we are expecting a ratio at the upper end of the range.

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

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

Our expectations for this year are also cautious as regards our business with institutional clients. The expected low interest rate environment will make it difficult for many institutional investors to achieve their target returns. Individual solutions and products which are tailor-made to the requirements of the institutional clients and which illustrate the targeted risk-return profile are mandatory requirements for standing out as a trusted advisor for our clients. Thanks to our cautious approach to high-risk structures, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available to our clients for this; we have direct access to the global trading books, which also enable large-volume transactions and the assumption of risk, and can thus offer added value. As clients will only be able to make limited risk capital available for new investments in 2009, we are expecting declining transaction volumes and a lower earnings contribution.

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

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

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

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

Risk Management

Principles of Risk Management Policy

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

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

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

2008 presented major challenges for risk management in banks. Some of them have had to learn the painful lesson that liquidity is not a freely available commodity, but that the old principle of "liquidity before profitability" has justified itself in a drastically changing market environment, as shown by the spectacular collapse of Lehman Brothers, the US investment bank. Issues relating to the Bank's liquidity position were therefore of the greatest priority for us in 2008. HSBC Trinkaus saw major inflows of liquidity from all three client segments throughout the year. We extended our liquidity reserves and paid strict attention when investing the funds accruing in the money and capital markets to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds.

The second central challenge facing our risk management, directly after managing liquidity, was managing counterparty risk. At first we focused primarily on the counterparty risks of other financial market participants. Relieved by the government rescue packages introduced, we then took an increasingly critical look at country risks. The problems in Iceland and the aid provided by the International Monetary Fund also brought this subject to the attention of the general public.

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

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

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

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

Risk Management – Organisational Structure

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

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

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

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

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

Strategic Risk

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

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. This aspect will become even more important in 2009 as the capacity of many of our clients to assume risk will be reduced by the negative performance of the capital market. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients, can only counteract this risk to a limited extent. Thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way to a certain degree through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

It is too early to judge at present whether HSBC Trinkaus' strategic situation will deteriorate because several competitors in the German banking market are using government state rescue packages to strengthen their equity and for state guaranteed refinancing. Risk premiums will have to be raised in order to provide adequate cover for the increased risks in the banking business at present. However, if this increase in risk premiums does not come about on account of the government support, it will mean firstly the systematic distortion of the competition at the expense of banks which get by without government assistance thanks to their functioning risk management organisation. Secondly, it is unclear how the domestic and international competitors concerned plan to pay the funds raised back to the governments again.

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

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already used many times that not more, but more effective regulation, is required will be implemented. The transfer of tasks stipulated by the government to the banks, such as money laundering control and tax collection along with the accompanying examinations, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to substantial increase in the Bank's fixed costs irrespective of its earnings opportunities. The regulatory costs are taking on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we emphasise that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly.

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

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

Counterparty Risk

a) Organisation of the credit processes

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

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

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

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

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

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

To classify the credit quality of its corporate and institutional clients in the lending business, the Bank uses a 22-stage rating system. We use four different rating systems which cover the customer groups international corporations, German medium-sized companies, banks and financial service providers. These systems are constantly being improved in detail. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and collateral agreements if required.

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

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

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

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

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

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

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

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

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

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

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

b) Maximum default risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

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

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

* Including the setting-up of provisions for credit risks

Trading assets and financial assets (excluding bonds)

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

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

OTC derivatives

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

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

e) Information on exposures which are neither overdue nor impaired

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

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

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

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

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

The Bank's loans and advances which have not been impaired although overdue amounted to € 1.9 million in the year under report (2007: € 1.2 million) and are exclusively to customers. € 0.5 million (2007: € 0.8 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. We made no corresponding impairments on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at € 0.5 million in the year under report (2007: € 0.7 million).

There are also overdue, but not impaired claims resulting from excess interest of € 0.4 million (2007: € 0.4 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was € 0.5 million (2007: € 0.5 million).

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

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

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

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

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

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

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

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

h) Information on collateral received

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

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

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

j) Information on credit risk concentration

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

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

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

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

The breakdown by sector shows that banks and financial institutions account for a substantial part of the maximum default risk, with other units of the HSBC Group accounting for € 4,579.1 million (2007: € 6,847.5 million).

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

Basel II

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

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

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

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

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

Operational Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market Risk

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

To measure market risks in our trading book under normal market conditions we have been using for many years a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99% probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 5 of the consolidated financial statements "Financial Instruments" for the valuation of the financial instruments included in the model). The complete revaluation of all positions is carried out to reflect changes in the market parameters. With respect to interest rate risk we consider both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. We do not include spread risks from non-financials in the model as they are of no importance for our proprietary trading. The inclusion of further spread risks in the risk model is being considered. Issuer-specific interest-rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits, including limits for sensitivities and special stress scenarios.

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

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

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

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

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

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

For the purposes of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. In 2008, two back-testing anomalies were found throughout the Bank, a fact which suggests that the risk modelling employed is probably on the conservative side given the major distortions on the financial markets, in particular in autumn 2008.

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

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

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

The average market risk potential in the investment book (99% confidence interval/1-day holding period) came to € 1.2 million (2007: € 3.2 million). Market risks in the Bank's investment book are limited to interest rate as well as equity and other price risks. They are determined outside the risk models and are controlled at executive management level.

Liquidity Risk

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

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

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

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

	Key liquidity ratio in accordance with LiqV	
in %	2008	2007
31.12.	1.57	1.56
Minimum	1.51	1.33
Maximum	1.83	1.80
Average	1.61	1.58
Reference value in accordance with Section 2 LiqV	1.00	1.00

The ratio of loans and advances to customers to customer deposits is a further central ratio for managing liquidity throughout the Bank. It stood at 35.2% (2007: 41.6%) at the end of the year. The improvement in this ratio is due essentially to the increase in customer deposits in 2008 which expresses how much confidence has been placed in the Bank in this difficult market environment.

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

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

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

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

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

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

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

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

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon. – 4 years	> 4 years	No fixed term	Total
Loans and advances to banks	31.12.2008	2,190.7	561.6	227.4	0.0	0.0	0.0	2,979.7
	31.12.2007	2,058.5	1,306.6	751.5	0.4	0.0	0.0	4,117.0
Loans and advances to customers	31.12.2008	2,688.0	558.9	453.9	149.3	232.5	0.0	4,082.6
	31.12.2007	2,742.7	554.9	583.7	107.1	284.5	0.0	4,272.9
Trading assets*	31.12.2008	12,482.6	0.0	0.0	0.0	0.0	0.0	12,482.6
	31.12.2007	10,436.8	0.0	0.0	0.0	0.0	0.0	10,436.8
Financial assets	31.12.2008	56.4	6.1	23.1	949.6	812.5	271.1	2,118.8
	31.12.2007	29.9	44.8	209.8	303.5	455.2	525.0	1,568.2
Other assets	31.12.2008	16.3	0.0	40.6	0.0	0.0	202.3	259.2
	31.12.2007	10.5	15.1	19.8	0.0	0.0	31.9	77.3
Total	**31.12.2008**	**17,434.0**	**1,126.6**	**745.0**	**1,098.9**	**1,045.0**	**473.4**	**21,922.9**
	31.12.2007	**15,278.4**	**1,921.4**	**1,564.8**	**411.0**	**739.7**	**556.9**	**20,472.2**

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

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 57.

Staff

Number of Employees and Persons Receiving Pensions

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

Training Activities

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

Advanced Training

The professional and social skills of our employees are a decisive competitive advantage for the Bank. We therefore make extremely high demands of our job applicants, also in view of the demographic trends. Only with specially qualified and motivated personnel can we meet our clients' challenging quality standards in the long term. Taking this into consideration, we also pay particular attention to the further training of our employees. For example, we help them to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank, leadership and acquisition seminars and communication training. Our various advanced training activities are rounded off by specialised occupational study and training courses as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). When selecting vocational training measures and recruiting suitable trainers, we pay close attention to the special requirements made of our employees in the various areas of our business.

Performance-related Remuneration

Performance-related remuneration remains of major importance for motivating our staff, regardless of whether they are tariff or non-tariff employees. The incentive provided for our managerial staff in the form of a profit participation scheme and variable remuneration plays a particularly important role here.

Thanks

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

Shareholders and Shares

Capital

At 31 December 2008, the Bank's issued share capital was unchanged at € 70.0 million divided into 26.1 million no-par value shares. 52% of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges.

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

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

Share Price and Market Value

During 2008, our share price fell 21.9% to € 89.00. The lowest fixing price of the year was € 85.00 and the highest € 117.00. From the initial issue price of DM 190 per DM 50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

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

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

Dividends

For the 2008 financial year we propose paying a dividend of € 2.50 per share (2007: € 2.50 per share). With a dividend total of € 65.3 million we wish to ensure that our shareholders participate suitably in the profits we generated in 2008.

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

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

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

Consolidated Income Statement HSBC Trinkaus & Burkhardt

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

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

Earnings per Share

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

As in 2007, there were no option and conversion rights outstanding for the purchase of shares in the 2008 financial year. There was therefore no calculable dilution effect.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 18) had a material impact on earnings per share.

Consolidated Statement of Changes in Equity HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Consolidated balance sheet profit	Shareholders' equity	Minority interests	Total including minority interests
At 31 December 2006	70.0	211.4	481.8	121.7	884.9	0.0	884.9
Dividend distribution				−65.3	−65.3		−65.3
Retention from 2006 profit available for distribution			5.3	−5.3	0.0		0.0
Changes in value resulting from currency translation					0.0		0.0
Addition from net profit for the year*				144.0	144.0		144.0
Gains/losses not recognised in the income statement			−1.0		−1.0		−1.0
Effect on capital of first-time consolidation at equity			0.6		0.6		0.6
Share-based payments*		5.5			5.5		5.5
At 31 December 2007	70.0	216.9	486.7	195.1	968.7	0.0	968.7
Dividend distribution				−65.3	−65.3		−65.3
Retention from 2007 profit available for distribution			121.3	−121.3	0.0		0.0
Changes in the group of consolidated companies					0.0	18.1	18.1
Changes in value resulting from currency translation					0.0		0.0
Addition from net profit for the year				91.2	91.2	−1.6	89.6
Gains/losses not recognised in the income statement			−41.2		−41.2		−41.2
Share-based payments		1.6			1.6		1.6
At 31 December 2008	70.0	218.5	566.8	99.7	955.0	16.5	971.5

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

Comprehensive Income for the Period

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

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

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

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

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

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Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2008 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to Section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration.

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

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

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

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

At the end of 2008, HSBC Holdings plc had an indirect interest of 78.6% in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on Accounting, Valuation and Consolidation Methods

1 Scope of Consolidation

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

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

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

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

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

In addition, we have fully consolidated two special funds (2007: three) and two closed-end property funds (2007: one) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 63.

2 ▸ Consolidation Principles

In accordance with IAS 27.28, the accounting policies were applied consistently throughout the Group.

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

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

3 ▸ Foreign Currency Translation

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

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

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

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings. Translation differences recognised in or without effect on the income statement had no significant impact in the 2008 financial year, as in the previous year.

4 ▸ Business Combinations

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

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

No contingent liabilities existed at the time of purchase.

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

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

5 ▸ Financial Instruments

Recognition

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

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

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

Reporting

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

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

Measurement

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

(a) Financial Assets or Liabilities at Fair Value through Profit or Loss

This category differentiates between financial instruments that are either classified irrevocably as held-for-trading (HfT) or at fair value through profit or loss upon initial recognition (fair value option). As in the previous year, we did not exercise the fair value option, so that the corresponding sub-category is not filled at present.

Besides all derivatives – including embedded derivatives which are required to be separated – financial instruments in the held-for-trading category include all positions which have been acquired for the purpose of generating short-term gains from changes in the market price.

As a rule, subsequent measurement is at fair value, where publicly traded market prices, if available, are based on the assumption of an active market; measurement is otherwise determined using recognised measurement methods. For the most part, standard measurement models are used, such as those implemented by external software providers in the respective software. These are mainly present value methods and option price models. We have cooperated closely with HSBC to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters imposed are as differentiated as possible – for example, according to lifetimes, strike prices etc. The choice of data sources used plus the allocation of measurement parameters and applicable measurement method for the financial instruments in question is independent of trading. Provided all material measurement parameters cannot be observed for specific products, the measurement results from new transactions (day-1 profit or loss) in these products are not recognised in the income statement until maturity or when the position is closed out. There is no distribution over the transaction term. All realised gains and losses, as well as the unrealised measurement results are reported under net trading income.

b) Held-to-Maturity Investments

As in the previous year, no financial instruments were allocated to the held-to-maturity category.

c) Loans and Receivables

The "loans and receivables" category comprises all those non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or that were not classified as available-for-sale financial assets when the agreement was concluded. Financial instruments are the exception here, which, owing to the short-term intention of the category to resell the assets, are allocated at fair value or to the financial assets from the very outset. The corresponding loans and receivables are measured at amortised cost. Discounts and premiums are recorded proportionately within interest income. Impairments on loans and receivables are posted under net loan impairment provision.

d) Financial Assets Available-for-Sale

The "available-for-sale" category includes on the one hand all financial instruments and is on the other the residual variable of the financial assets; in other words, it also includes the financial instruments that were not allocated to any of the three other measurement categories of IAS 39. These consist of securities (including registered bonds), acquired loans and advances and holdings.

Subsequent measurement of financial instruments in this category is at market value. The measurement methods are identical to those used for the measurement of held-for-trading financial instruments. Changes in the value vis-à-vis the net acquisition cost are reported under shareholders' equity with no effect on the income statement.

There are no sufficient measurement parameters for holdings in partnerships and specific unlisted public limited companies: on the one hand, no price is quoted for these financial instruments in an active market. On the other, it is impossible to determine the market value, since the volatility of possible securities is too great or no probability of event can be attributed to the individual securities. These holdings are measured at amortised cost.

In the event of a reduction in value due to counterparty or sovereign risk (impairments), (direct) write-downs to the lower market value are made. The impairment test is carried out on the occasion of every interim report. The impairments are reported in income from financial assets. Objective evidence of impairment on a debt instrument is included as income immediately. Write-ups affecting the income statement up to maximum amortised cost are recognised, as soon as the reason for the write-down no longer applies. Equity instruments are written down if the market value is significantly or permanently below original cost. A decline in the fair value of at least 20% below the original cost is considered significant. If the fair value has fallen permanently below original cost in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the market value in both cases. If the reasons for impairment cease to exist for equity instruments – unlike debt instruments – no write-up with effect on the income statement is made. Rather, the corresponding write-ups are recognised directly in retained earnings.

(e) Other Liabilities

The other liabilities category includes all financial liabilities that were not allocated to the fair value category. They are therefore not measured at fair value through profit and loss, but at amortised cost: as a rule, other liabilities are carried at their settlement amount. Discounts and premiums are recognised proportionately within interest expense. Non-interest bearing liabilities, such as zero coupon bonds – are measured at their interest rate as at the balance sheet date.

(f) Reclassification

The option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

6 ▸ Hedge Accounting

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

7 ▸ Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions on the one hand as net loan impairment provision on the assets side and on the other as provisions for credit risks on the liabilities side. Net loan loss provisioning differentiates between individually assessed impairments/provisions on the one hand and collectively assessed impairments/provisions on the other.

Individually assessed impairments in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 ratio categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on counterparty risk in the consolidated financial statements for further explanations – especially on calculating impairments/provisions.

Furthermore, impairments/provisions are created on a collective basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general impairment/provision will then be calculated for each of these portfolios on the basis of historical default probabilities and economic indicators.

Where it is determined that a loan cannot be repaid, the uncollectible amount is first written off against any existing individually assessed impairments, and/or directly recognised as expense in the income statement.

8 ▸ Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities (cf. Note 35).

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet item trading assets (cf. Note 24). This facilitates more appropriate reporting. Securities purchased under agreements to resell are not reported.

The Bank does not enter into non-genuine repurchase transactions.

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions were reported under the balance sheet item trading assets or trading liabilities (cf. Notes 24 and 35).

9 ▸ Share of Profit in Associates

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

10 ▸ Property, Plant and Equipment

The property, plant and equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment.

Hardware and other operational and business equipment are valued at cost less regular depreciation. The useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the expected useful life of the asset and is based on the following useful lives throughout the Group:

	Useful life in years
Hardware	3
Motor vehicles	6
Fixtures/operating facilities	10
Furniture	13
Buildings	50

Depreciation that exceeds wear and tear-related erosion is taken into consideration under impairments. Where the reasons cease, corresponding write-ups are made.

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

Gains/losses from the disposal of property, plant and equipment totalling € 0.3 million (2007: € 0.1 million) were shown in net other income/expenses (cf. Note 50). Repairs, maintenance and other measures required for the upkeep of property, plant and equipment are recorded as expenses in the financial year in which they were incurred.

11 ▸ Intangible Assets

Items disclosed under intangible assets include standard software. In-house development work carried out within the scope of software projects is capitalised in accordance with IAS 38. Intangible assets are valued at purchase or production cost less regular depreciation on a straight-line basis over the expected useful life of the asset of three to ten years.

Intangible assets also include the goodwill resulting from the acquisition of ITS (cf. Note 4). The goodwill is not subject to any scheduled amortisation. An impairment test is carried out instead at least once a year, in accordance with IAS 36.

12 ▸ Leasing

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

13 ▸ Treasury Bonds and Shares

The Bank holds its treasury bonds only to a limited extent and, in accordance with the IFRS requirements, offsets them against the liability items arising from the issuance of bonds.

As at the end of 2008, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 6,886 treasury shares were bought at an average price of € 100.97 (2007: € 113.38) and sold at an average price of € 100.81 (2007: € 115.01). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.01 % (2007: 0.03%) of the share capital.

14 ▸ Provisions

Provisions for pensions and uncertain liabilities are reported under provisions.

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

Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure.

15 ▸ Taxation Recoverable and Taxation

Current tax expenses are calculated in accordance with the tax rates applicable for each individual company. Current taxation recoverable is offset against current taxation provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations that are used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when the realignment of the valuations occurs. The deferred taxation is calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable or deferred taxation will be adjusted accordingly (cf. Note 51).

16 ▸ Share-based Payments

The Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (one, three and five years). In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses derived from this – apportioned to the respective blocking period – are recognised in the income statement.

In addition, the performance-related remuneration components for employees and the Management Board were, over a certain volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in three equal amounts over the subsequent financial years and is fundamentally subject to their continued service for the Bank. Unlike previous years, the equity component for the performance-related compensation for 2008 will be paid in one sum. It is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; personnel expenses are spread over the vesting period.

The share option scheme for former Managing Partners resulting from the change in legal form into a German stock corporation will also be spread out over three years. This is also reported as share-based payments settled in the form of equity instruments.

17 ▸ Reporting of Income and Expenses

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers, and income from financial assets. Interest expense includes expenses arising from deposits by banks and customer accounts, as well as liabilities in certificate form and subordinated capital. The Bank recognises dividends at the time of the legal creation of the dividend entitlement with an effect on the income statement.

Net fee income includes above all income from securities, foreign exchange and derivatives business, as well as from special advisory services (e.g. Investment Banking). Fee income and expenses are recognised in the income statement whenever the service is performed.

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

The results from derivatives held in the banking book are also reported in net trading income.

18 ▸ IFRS Treatment Applied

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

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

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

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

IFRS 8, Operating Segments, was published on 30 November 2006 and is obligatory for all financial statements that start on or after 1 January 2009. The new standard will essentially adopt the management approach to segment reporting and will be applied for the first time in the year under report. Owing to the distinction always drawn by operating segments, the first-time adoption of this interpretation will not lead to any changes for the comparative period either.

Other standards and interpretations that are not yet compulsory for 2008 will not have any material effect on the Bank.

19 Material Events occurring after the Balance Sheet Date

No transactions materially affecting the assets, financial position and profitability of the company took place during the period between the balance sheet date and the date on which these accounts were prepared.

Notes to the Consolidated Balance Sheet

20 Cash Reserve

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

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

21 Loans and Advances to Banks

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

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

22 ▸ Loans and Advances to Customers

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

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

23 ▸ Net Loan Impairment and Other Credit Risk Provisions

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

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

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

Net loan impairment provision developed as follows:

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

Provisions for credit risks developed as follows:

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

24 Trading Assets

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

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

Tradable receivables are recognised largely as promissory note loans and registered bonds. The rise in the positive market value of the derivatives corresponds with the rise in the negative market values of the derivatives (cf. Note 35).

The securities lending and collateral items in the derivatives trading business comprise funds that we pledged as collateral (cf. Notes 31 and 61).

25 ▸ Financial Assets

Financial assets comprise the Bank's strategic positions, which are broken down as follows:

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

All financial assets are assigned to the available-for-sale category in accordance with IAS 39.

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

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

26 ▸ Share of Profit in Associates

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

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

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

27 ▸ Investment Overview

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

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

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

28 ▸ Taxation Recoverable

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

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

29 ▸ Other Assets

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

30 Subordinated Assets

The following overview shows the composition of our subordinated assets:

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

31 Repurchase Agreements and Securities Lending Transactions

The following overview shows the securities we pledged and which cannot be written off in accordance with IAS 39, as well as the associated financial liabilities.

In addition to treasury securities, we also pledged securities that we had previously received within the scope of securities lending transactions and repurchase agreements. All of the transferred securities are reported under trading assets.

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

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

€m	31.12.2008		31.12.2007	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	86.9	72.3	243.6	214.6
of which may be sold or pledged	86.9		158.9	
of which are already sold or pledged	0.0		84.7	
Securities lending transactions	221.4	2.1	1,623.9	827.2
of which may be sold or pledged	157.5		1,036.4	
of which are already sold or pledged	63.9		587.5	
Total	**308.3**	**74.4**	**1,867.5**	**1,041.8**

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 61). The relevant transactions were carried out at normal market conditions.

32 Deposits by Banks

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

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

33 Customer Accounts

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

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

34 Certificated Liabilities

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

35 Trading Liabilities

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

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading divisions. These issues are accordingly recognised as trading liabilities pursuant to IAS 39, and are valued at fair value. The rise in the negative market values of the derivatives corresponds with the rising positive market values of the derivatives (cf. Note 24).

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

36 ▸ Provisions

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

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

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

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

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

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 4.6 million in the year under report (2007: € 4.0 million).

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

in %	31.12.2008	31.12.2007
Long-term base rate of interest	5.75	5.5
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	**6.0**	**6.0**

Due to higher risk premiums from first-class fixed-interest industrial bonds, the base interest rate was increased to 5.75%.

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2009.

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

Development of Pension Obligations

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

Breakdown of Pension Obligations

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

The change in the plan excess is shown in the provisions in the transfers column.

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to € 24.4 million after taxes (2007: € 11.7 million). The rise in the actuarial losses is the result above all of the negative development of plan assets arising from uncertainty on the capital markets in the year under report.

Development of the Fair Value of Plan Assets

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

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

Breakdown of the Fair Value of Plan Assets

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

Provisions for credit risks include provisions for anticipated losses in connection with endorsement liabilities, sureties, acceptances and credit commitments. They are part of net loan impairment and other credit risk provisions (cf. Note 23).

The provisions for other taxes essentially include expected payment obligations resulting from auditing for taxes on commercial capital, salaries, turnover and capital from the previous years.

Other provisions include above all, provisions for anticipated losses and provisions for contingent liabilities.

37 ▸ Taxation

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

Current taxation include provisions for income taxes to be paid on the basis of the tax accounts of the fully-consolidated Group companies; our obligations arising from any income taxes to be paid as a result of current and future audits are also reported under this item.

Deferred taxation is our future tax burdens or relief, formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 51).

As in the previous year, deferred taxation recoverable is offset against deferred taxation if the prerequisites for offsetting exist.

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

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

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

* Balance from measurement differences in all trading activities

38 ▸ Other Liabilities

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

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

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

39 ▸ Subordinated Capital

€m	31.12.2008	31.12.2007
Subordinated liabilities (promissory note loans, bonds)	322.9	322.9
Profit-participation certificates	135.8	135.8
Total	458.7	458.7

A resolution passed at the Annual General Meeting on 30 May 2006 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or several occasions by 29 May 2011 up to a total amount of € 250.0 million. In order to strengthen liable equity further, the Bank issued new registered profit participation certificates in the amount of € 100.0 million in September 2006. No further use was made of this facility in the last financial year.

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

Subordinated capital of € 396.2 million (2007: € 399.8 million) – before discounts and market support deductions – is referred to for the calculation of liable equity capital according to Section 10 (5a) of the German Banking Act (KWG).

For the 2008 financial year, interest payable amounts to € 16.2 million (2007: € 15.6 million) on subordinated liabilities and to € 7.4 million (2007: € 7.4 million) on profit-participation certificates.

Interest and Repayment of Subordinated Liabilities

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

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

40 ▸ Shareholders' Equity

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

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

A resolution passed at the Annual General Meeting of 17 June 2008 authorised the Management Board to increase the share capital by up to € 35.0 million on or before 31 May 2013, with the Supervisory Board's approval, through issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to € 35.0 million by means of issuing no-par value bearer shares. The conditional capital increase shall only be executed to the extent that the holders of conversion or option rights, issued no later than 31 May 2013 on the basis of the authorisation resolution by the Annual General Meeting of 17 June 2008, exercise their conversion or option rights (conditional capital).

Valuation Reserve for Financial Instruments

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

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

Shareholders' Equity in Accordance with the German Banking Act (KWG)

A bank's capital for regulatory purposes is divided into three components – core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily share capital plus the capital reserve and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominately of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

According to the regulatory requirements, banks are obliged to quantify their counterparty, market and operational risks, and to back them with eligible capital. Market risks result from the interest rate and share price risk on the trading portfolio, as well as foreign exchange risk, commodity risk and other positions exposed to market risk. Counterparty risk may be backed only by core and supplementary capital, while market risk can also be backed by tertiary funds. The minimum mandatory total capital ratio is 8%. At the same time, at least 4% of the risk-weighted assets must be backed by core capital. The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis. The regulatory ratios following confirmation of the balance sheet are as follows:

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

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

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

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

The availability of adequate shareholders' equity is fundamental to the management of the Bank, in order to adequately cover the risks inherent in banking. We have deliberately exceeded the regulatory requirements considerably in order to be prepared to achieve organic growth and deal with fluctuations in the course of business, whilst creating scope for appropriate strategic acquisitions. All in all, we want to maintain a minimum total capital ratio of 10%. Please refer also to the comments on the Bank's financial position in the Group Management Report.

An analysis of the economic capital requirement complements this management of shareholders' equity, which is focused on the regulatory requirements. Although the introduction of the Basel II Accord considerably improved the risk measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and the available risk cushions in our business, in conjunction with the issue of the Bank's risk-bearing capacity even in extreme stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees and the statistical database features different qualities, so that an aggregation of the risk is not quite without its problems. We refined the calculation of economic capital requirements in 2008 and besides ensuring there is a minimum 99.95% probability that the risk cushion exceeds the risk exposure, also carry out a calculation with the "once in 25 years" probability. Ultimately it can be said that the Bank's risk-bearing capacity is unchanged and its capitalisation adequate. This is also confirmed by the business results for the 2008 financial year.

41 ▸ Minority Interests

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

42 ▸ Measurement Classes

Assets as at 31.12.2008					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		139.5			139.5
Loans and advances to banks*	2,979.7				2,979.7
Loans and advances to customers*	4,061.2				4,061.2
Trading assets			12,482.6		12,482.6
Financial assets		61.6		2,057.2	2,118.8
Other financial instruments	38.2	1.7			39.9
Total financial instruments	**7,079.1**	**202.8**	**12,482.6**	**2,057.2**	**21,821.7**
Other assets not included under IAS 39					384.0
Total assets					**22,205.7**

Liabilities as at 31.12.2008 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	Total
Deposits by banks	2,709,1		2,709.1
Customer deposits**	11,592.8		11,592.8
Certificated liabilities	10.0		10,0
Trading liabilities		6,152.9	6,152.9
Subordinated capital	458.7		458.7
Other financial instruments	50.5		50.5
Total financial instruments	**14,821.1**	**6,152.9**	**20,974.0**
Other liabilities, not included under IAS 39			260.2
Shareholders' equity			955.0
Minority interests			16.5
Total assets			**22,205.7**

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customer deposits are used in part internally to refinance our trading divisions.

Assets as at 31.12.2007 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		332.3			332.3
Loans and advances to banks*	4,117.0				4,117.0
Loans and advances to customers*	4,256.7				4,256.7
Trading assets			10,436.8		10,436.8
Financial assets		56.5	0.3	1,511.4	1,568.2
Other financial instruments	0.9	5.6			6.5
Total financial instruments	**8,374.6**	**394.4**	**10,437.1**	**1,511.4**	**20,717.5**
Other assets not included under IAS 39					349.4
Total assets					**21,066.9**

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

* Net loan impairment provision is reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our customer deposits are used in part internally to refinance our trading divisions.

Notes on the Consolidated Income Statement

43 Net Interest Income

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

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

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

44 Share of Profit in Associates

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

45 ▸ Net Loan Impairment and Other Credit Risk Provisions

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

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

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

46 ▸ Net Fee Income

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

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

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

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

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

47 ▸ Net Trading Income

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

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

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

48 ▸ Administrative Expenses

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

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

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

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

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

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

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

49 ▸ Income from Financial Assets

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

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

50 ▸ Net Other Income/Expenses

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

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

51 ▸ Tax Expenses

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

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

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

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

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

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

52 Calculation of Operating Profit

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

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (cf. Note 50). A breakdown of operating profit by business segment is shown in Segment Reporting (cf. Note 55). Operative trading profit comprises net trading income from our trading desks but does not include results from derivatives held in the banking book.

53 Income Statement by Measurement Category

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

Measurement category 31 December 2008 €m	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale	Other financial liabilities	Other	Total
Net interest income							
Interest income	307.6	10.0		80.0			397.6
Interest expenses					–258.1		–258.1
Net fee income							
Fee income	5.1					601.4	606.5
Fee expenses	–0.1					–258.8	–258.9
Net trading income			87.1				87.1
Income from financial assets				–6.3			–6.3
Impairments							
Net loan impairment and other credit risk provisions	–5.9					1.4	–4.5
Income from financial assets				–43.7			–43.7
Total	**306.7**	**10.0**	**87.1**	**30.0**	**–258.1**	**344.0**	**519.7**

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

54 Notes to the Cash Flow Statement

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

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fee income, the at-equity result, net trading income and the balance of other operating income and expenses, minus administrative expenses and risk provisioning.

The summary item Other adjustments (net) in the cash flow statement essentially comprises the valuation results of the financial instruments in the trading portfolio at the reporting date, net additions to deferred taxes, the change in taxation recoverable as well as tax expenses paid, interest and dividends received minus interest paid.

Cash and Cash Equivalents
As in the previous year, the cash and cash equivalents of € 139.5 million (2007: € 332.3 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

Cash Flow from Operating Activities
Consolidated cash flows from operating activities for the Group are presented according to the indirect method, which derives them from net profit for the year.

Consolidated net profit for the year of € 89.6 million (2007: € 144 million) is the input figure for the cash flow statement. Gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, amounts to € 30.3 million (2007: € 128.6 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash Flow from Investing Activities
Spending on the acquisition of property, plant and equipment totalled € 22.8 million in the 2008 financial year (2007: € 131.3 million). The sale of property, plant and equipment realised € 1.0 million (€ 2007: € 1 million) for the Group. In the 2008 financial year, the sale and purchase of financial investments realised a net outgoing payment of € 2.5 million (2007: € 15 million).

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

55 ▸ Segment Reporting

The segment reporting prepared by HSBC Trinkaus & Burkhardt in accordance with IFRS 8 for the first time in the financial year provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions and should help them gain a more differentiated picture of the economic performance of the Group.

The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits. The Management Information System (MIS) also serves as one of the Bank's central controlling and monitoring tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis.

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

Private Banking
The Private Banking business division offers the clients of HSBC Trinkaus extensive advisory and management services for larger private portfolios. In addition to general portfolio management and advisory services, this involves special services such as advice on asset structuring, execution of wills, real estate advisory services as well as Family Office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

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

Institutional Clients
In its Institutional Clients division, HSBC Trinkaus offers its institutional clients, namely fund-gathering institutions with major investment needs such as insurance companies, pension and investment funds and also banks, the full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients, e.g. to guarantee the value of large investment portfolios.

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

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

Segment income is broken down into net interest income, net fee income and net trading income. The difference between the standardised risk-related costs in the operating segments (credit rating-related add-ons to drawings and limits not utilised) and the risk costs reported in the income statement is allocated to the Central Divisions. Wherever possible, administrative expenses are charged to the segments if possible according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

Segment reporting by business division for 2008 and 2007 is as follows:

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

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

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

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

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

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

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

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

* Annual average
** Excluding ITS

Assets, liabilities and items for mandatory inclusion are based on the average values of the Bank's management information system. The differences with respect to the values on the reporting date as at year-end are shown in the adjustments column.

The cost:income ratio is a measure of the divisions' cost efficiency and reveals the ratio of total administrative expenses to the result from ordinary activities before risk provisioning. This ratio has improved in the Corporate Banking segment compared with the previous year and is virtually unchanged in the Global Markets segment. The cost:income ratios of the Private Banking and Institutional Clients segments deteriorated slightly as their costs exceeded income in percentage terms.

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

The assignment of assets, liabilities, risk assets and balance sheet equity follows the assignment of customers to each segment according to the management information system.

The rise in loans and advances to customers in the Private Banking segment was accompanied by the expansion of their items for mandatory inclusion, leading to an additional capital requirement. On the other hand, because of the Basel II methodology, the Corporate Clients segment was subject to lower capital adequacy despite the higher volume of business. The items for mandatory inclusion of the Institutional Clients and Global Markets segments fell accordingly.

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

The results of the various companies' activities, which are classified geographically, are illustrated below. Segment allocation is determined by the registered office of the respective Group company:

€m		Germany	Luxembourg	Remainder	Total
Profit before taxes	2008	110.6	26.2	1.4	138.2
	2007	176.8	26.9	3.5	207.2

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

56 ▸ Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties. Details of the valuation can be found in Note 5.

Assets and liabilities held-for-trading as well as financial assets are reported in the balance sheet at market value, i.e. book value equates to market value. Cash reserves, interbank funds, loans and advances to customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant. For other items in the balance sheet, the following differences are noted between the fair value and reported book value:

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

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

The financial instruments whose fair value cannot be determined reliably are listed in the following table. These are mainly partnerships and unlisted public limited companies for which there is no active market. Measurement is therefore at cost.

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

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

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

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2008 €m		observed parameters	unobservable parameters		
Trading assets	1,490.1	10,992.3	0.2	0.0	12,482.6
Financial assets	470.2	1,584.7	2.3	61.6	2,118.8
Trading liabilities	697.1	5,429.6	26.2	0.0	6,152.9

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

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to € 0.2 million (2007: € 1.5 million). A 25% change in the unobservable parameters would lead to a € 1.5 million (2007: € 0.3 million) change in the market value.

57 ▸ Day-1 Profit or Loss

Financial assets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

The day-1 profit or loss developed as follows during the year under report:

€m	2008	2007
As at 1 January	3.5	5.0
New business	2.1	2.1
Day-1 profit or loss recognised in the income statement	–2.3	–3.6
of which positions closed out	–1.3	–3.6
of which matured transactions	–1.0	0.0
of which observable market parameters	0.0	0.0
As at 31 December	3.3	3.5

58 Holdings in Foreign Currency

As at 31 December 2008, assets denominated in a foreign currency were valued at € 2,635.9 million (2007: € 2,554.7 million) and the corresponding liabilities at € 3,666.2 million (2007: € 2,475.4 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

59 Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with Section 36 of the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e.V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of their credit rating and any netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these derivatives.

Breakdown of the Derivatives Business by Nominal Amount

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

* including gold transactions

Breakdown of the Derivatives Business by Market Value

€m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2008	Total 2007	Total 2008	Total 2007
OTC products	FRAs	2	0	0	2	0	2	0
	Interest rate swaps	45	270	447	762	433	921	399
	Interest rate options - purchases	24	19	77	120	178	0	0
	Interest rate options – sales	0	0	0	0	0	152	199
	Forward transactions	0	0	0	0	3	0	3
Interest-based transactions		**71**	**289**	**524**	**884**	**614**	**1,075**	**601**
OTC products*	Foreign exchange transactions	967	97	1	1,064	477	1,075	474
	Cross-currency swaps	9	12	0	21	7	28	9
	Foreign exchange options – purchases	115	30	0	146	148	0	0
	Foreign exchange options – sales	0	0	0	0	0	144	117
Foreign exchange-based transactions		**1,091**	**139**	**1**	**1,231**	**632**	**1,247**	**600**
OTC products	Equity/ index options – purchases	65	42	1	108	66	0	0
	Equity/index options – sales	0	0	0	0	0	207	60
Equity/index-based transactions		**65**	**42**	**1**	**108**	**66**	**207**	**60**
Total financial derivatives		**1,227**	**470**	**526**	**2,223**	**1,312**	**2,529**	**1,261**

* including gold transactions

60 ▸ Contingent Liabilities and Other Obligations

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

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of € 3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of € 1.6 million is still outstanding.

The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in LiquiditätsKonsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are also contingently liable pro rata for fulfilment of the additional funding obligations of other partners belonging to the Association of German Banks (Bundesverband deutscher Banken e. V.).

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

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

61 ▸ Assets Pledged as Collateral

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

Debt instruments with a nominal value of € 4,155.5 million (2007: € 1,767.0 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 ▸ Trust Activities

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

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

63 ▸ Participating Interests

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

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

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

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

64 Releasing Subsidiaries from the Disclosure Requirements of the German Commercial Code (Handelsgesetzbuch – HGB)

The following subsidiaries intend to make use of the exemption afforded by Section 264 (3) of the German Commercial Code and will not publish their financial statements for 2008:

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- DPT Deutscher Pension Trust GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- Grundstückgesellschaft Kö 2 GmbH, Düsseldorf
- HSBC Trinkaus Private Wealth GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf

65 ▸ Letter of Comfort

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

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

66 ▸ Staff

Annual average	2008	2007*
Staff employed abroad	180	138
Staff employed in Germany	2,013	1,599
Total (including trainees)	**2,193**	**1,737**
of which:		
female members of staff	981	762
male members of staff	1,212	975

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

67 ▸ Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG AG Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expense:

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

68 Business Relationships with Companies and Persons defined as Related Parties

In accordance with our "best of both worlds" strategy, we continued to expand our business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall, the consolidated income statement includes € 297.3 million (2007: € 265.3 million) in income and € 54.3 million (2007: € 37.7 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. Income includes interest income of € 233.6 million (2007: € 207.2 million).

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

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

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

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

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

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

Compensation of the Executive Bodies

The main components of the compensation system are presented in the Consolidated Management Report (please refer to Chapter 1: Organisation and Management). The following overview shows the remuneration components of the members of the Management Board and complies with the requirements of German Accounting Standard (GAS) No. 17. As resolved by the Annual General Meeting held on 5 June 2007, information is disclosed pursuant to Section 314 Paragraph 1 (6a), Sentence 5 to 9 of the German Commercial Code (Handelsgesetzbuch – HGB).

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

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

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

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

Provisions totalling € 9.8 million (2007: € 10.2 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 9 June 2009, the compensation of the Supervisory Board will be € 1,160,250.00 (2007: € 1,180,463.69). The members of the Advisory Board received remuneration totalling € 331,300.00 (2007: € 323,100.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 396,991.38 (2007: € 193,203.88). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled € 4.5 million (2007 € 4.5 million). Provisions totalling € 41.5 million (2007: € 44.1 million) have been created to cover pension obligations for former Managing Partners and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 69.

As at the 2008 reporting date, loans and advances in the amount of € 44,487.66 were granted to members of the Management Board at a rate of 6.0% p.a. Like in the previous year, there were no loans and advances to members of the Supervisory Board. Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

69 ▸ Share-based Payments

Breakdown of the Share Option Scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2008	Number of option rights 31.12.2007
SAYE 2003 (5Y)	01.08.2003	2.89	7.68	–	64,804
SAYE 2004 (5Y)	01.08.2004	3.21	9.75	25,358	26,645
SAYE 2005 (3Y/5Y)	01.08.2005	2.95/3.00	9.66	50,400	148,522
SAYE 2006 (3Y/5Y)	01.08.2006	2.60/2.67	11.01	52,573	74,929
SAYE 2007 (1Y/3J/5Y)	01.08.2007	2.82/2.90/2.99	10.42	80,821	174,097
SAYE 2008 (1Y/3J/5Y)	01.08.2008	2.49/2.66/2.77	8.67	281,944	–
Aggregate				491,096	488,997

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on 1 August of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2008 was € 10.62 (1 August 2007: € 12.30).

Development of the Share Option Scheme

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

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

Breakdown of the Share-Participation Scheme
Like in the previous year, performance-related remuneration for employees and the Management Board was partially carried out by means of assigning shares of HSBC Holdings plc in 2007. It can be broken down as follows:

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

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 4.7 million (2007: € 4.0 million). The corresponding liability for share-based payments amounts to € 7.3 million (2007: € 0.0 million).

70 ▸ Statement on the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

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

71 Offices held by Members of the Management Board

As at 31 December 2008, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz (Chairman)	
Position	Company
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Deputy Member of the Board of Directors	L-Bank, Karlsruhe
Deputy Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt am Main

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

Dr. Olaf Huth	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

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

72 Offices held by Other Members of Staff

As at 31 December 2008, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Member of the Executive Committee)	
Position	Company
Member of the Supervisory Board	HSBC Bank (RR) Ltd., Moskau, Russia
Member of the Supervisory Board	HSBC Bank Polska S.A., Warschau, Poland

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

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

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

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

Gerd Goetz	
Position	Gesellschaft
Member of the Supervisory Board	SINO AG, Düsseldorf
Member of the Supervisory Board	TICK-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf

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

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

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

Dr. Manfred v. Oettingen	
Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Hans-Joachim Rosteck	
Position	Company
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

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

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

Norbert Stabenow	
Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

73 ▸ Offices held by Supervisory Board Members

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

Dr. Sieghardt Rometsch (Chairman)	
Position	Company
Chairman of the Supervisory Board	Düsseldorfer Universitätsklinikum, Düsseldorf
Member of the Supervisory Board	Lanxess AG, Leverkusen
Member of the Board of Directors	HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
Member of the Board of Directors	Management Partner GmbH, Stuttgart

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

Dr. Hans Michael Gaul	
Position	Company
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	Siemens AG, Munich
Member of the Supervisory Board	VNG – Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

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

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

Dr. Siegfried Jaschinski	
Position	**Company**
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Chairman of the Supervisory Board	LBBW Equity Partners Verwaltungs GmbH, Munich
Chairman of the Supervisory Board	LBBW Equity Partners GmbH & Co. KG, Munich
Member of the Supervisory Board	Heidelberger Druckmaschinen AG, Heidelberg
Member of the Supervisory Board	Deutscher Sparkassenverlag GmbH, Stuttgart
Chairman of the Board of Governors	Vereinigung der Baden-Württembergischen Wertpapierbörse e. V., Stuttgart
Member of the Board of Directors	Bundesanstalt für Finanzdienstleistungsaufsicht, Bonn
Member of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main
Member of the Board of Directors	KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main

Professor Dr. Ulrich Lehner	
Position	**Company**
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche AG, Stuttgart
Member of the Supervisory Board	Porsche Automobil Holding SE, Stuttgart
Member of the Supervisory Board	Henkel Management AG, Düsseldorf
Member of the Supervisory Board	ThyssenKrupp AG, Düsseldorf
Member of the Shareholders' Committee	Henkel AG & Co. KGaA, Düsseldorf
Member of the Board of Directors	Novartis AG, Basel, Switzerland
Member of the Advisory Board	Dr. August Oetker KG, Bielefeld

74 ▸ Publication

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

Düsseldorf, 9 February 2009

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a Paragraph 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that it can be recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a Paragraph 1 German Commercial Code (HGB) as well as IFRS overall and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 16 February 2009

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

Signed by Becker
Auditor

Signed by Kügler
Auditor

Report of the Supervisory Board

Management

In exercising its monitoring function, the Supervisory Board received comprehensive reports on the development of business at the Bank, its major subsidiaries and individual business areas in four meetings conducted by the Management Board during the 2008 financial year.

At each meeting, the reports to the Supervisory Board covered the current results of the financial year to date in comparison with the budget and the results of the corresponding period of the previous year. The reports on significant events of the 2008 financial year related to the Bank's preparations for the introduction of the flat-rate withholding tax, the recording and control of operational risks, the credit risk strategy as well as the Bank's strategic regional planning.

The situation on the banking market, the crisis on the international financial markets and in the global economy as well as the conclusions to be drawn from them for the Group were discussed in detail in all supervisory board meetings. The Bank's risk situation was also considered in particular. Financial assets and their valuation as well as the Bank's liquidity situation were presented to the Supervisory Board.

In one meeting, the Supervisory Board focused on the presentation and discussion of the strategic positioning of the Bank, its business policy and principles of corporate planning for the 2009 financial year. The external auditors attended the Supervisory Board meeting in which the financial statements for the previous year were discussed. The Supervisory Board delegated the appointment of the external auditors for the audit of the annual financial statements and of the consolidated accounts to its Audit Committee. The external auditors attended the Committee meeting concerned and gave detailed information on the objectives, methods and key points of emphasis of the 2008 audit plan. As a result of this discussion, the auditors were mandated with the audit of the annual financial statements and of the consolidated accounts based on the agreed appropriate fee structure.

The Activities of the Committees Formed by the Supervisory Board

In order to deal more efficiently with selected and important management aspects, the Supervisory Board has formed three Committees from its members:

- the Personnel and Nominations Committee, which is responsible among other things for personnel matters relating to the Management Board (with the exception of the appointment and removal of its members), long-term succession planning together with the Management Board, proposing candidates to the Annual General Meeting for the nominations for the Supervisory Board, dealing with conflicts of interests between Management Board or Supervisory Board members as well as the approval of connected party loans to Bank employees and members of the Supervisory Board;
- the Audit Committee, which in addition to mandating the external auditors to audit the annual financial statements and consolidated accounts is responsible among other things for determining the focus of the audit, monitoring the independence of the external auditors, arranging the fee contract with them as well as accounting and basic risk management issues;
- the Credit Committee, to which the Supervisory Board has transferred among other things its right of veto in respect of loans which require the approval of the Supervisory Board either in accordance with the Bank's internal rules or pursuant to the German Banking Act (KWG). The Credit Committee is responsible furthermore for deciding upon the risk management strategy to be drawn up by the Management Board as well as upon connected party loans to companies.

All Committees each comprise three members of the Supervisory Board. The chairman of the overall Supervisory Board is also chairman only of the Personnel and Nominations Committee in accordance with the recommendation of the Corporate Governance Code.

The Personnel and Nominations Committee met five times, the Audit Committee four times during the 2008 financial year.

In addition to personnel matters relating to the Management Board, the Personnel and Nominations Committee was concerned in particular with the various changes in the management of the Bank's subsidiaries. It proposed to the Supervisory Board the re-election of the Management Board. The Supervisory Board followed the proposal in February 2008.

The crisis on the financial markets and the conclusions to be drawn from it were a major topic of discussion in the Credit Committee meetings. The Credit Sub-Committee was also occupied in all meetings with the regularly recurring duties transferred to it by the Supervisory Board.

The Audit Committee received and discussed reports from the internal audit department, from compliance/money laundering prevention in four meetings and in two meetings also reports from the auditors. In one meeting it was concerned with the draft report on the third quarter of 2008.

Corporate Governance

In its meeting on 13 February 2008, the Supervisory Board discussed the Corporate Governance Code of the Bank and issued the Declaration of Conformity under Section 161 German Stock Corporation Act (AktG). The Report on Corporate Governance in 2008, which lists and comments on the individual divergences from the recommendations of the Government Commission, can be found in this Annual Report and, like the Declaration of Conformity, can also be downloaded from the Bank's website.

The Supervisory Board concluded in its efficiency examination that in view of the personal professional qualifications of individual members of its body, it had no concerns as to their suitability. The efficiency of the Supervisory Board was examined and ascertained by means of the self-evaluation stipulated by the Corporate Governance Code.

The information given to the Supervisory Board satisfied all legal requirements and, with regard in particular to the depth of information provided on risks and to the supplementary presentations on new products, services and the activities of selected business areas, exceeded the requirements of the German Stock Corporation Act (AktG). The Supervisory Board therefore concluded that comprehensive information had been provided. The external auditors' report contained no findings which had not previously been reported on and examined in Supervisory Board meetings. The Supervisory Board therefore concluded that it had carried out its business efficiently.

During the 2008 financial year, no conflicts of interest were ascertained between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board satisfied itself of the independence of the external Auditors and the individual persons acting on their behalf.

Annual Financial Statements

The Supervisory Board has examined and approved the annual financial statements of the Bank for the year ended 31 December 2008, as well as the 2008 Management Report and the proposal of the Management Board for the appropriation of profit. KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, were appointed as external auditors to the Bank and its company group at the Annual General Meeting on 17 June 2008. On 3 September 2008, they were mandated by the Audit Committee of the Supervisory Board to audit the annual financial statements and consolidated accounts. The external auditors have audited the Bank's books, its annual accounts and the Management Report for the year ended 31 December 2008 and have given their unqualified audit opinion. The audit report was submitted to the Supervisory Board; no objections were raised.

The consolidated accounts for the year ended 31 December 2008 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (HGB). These accounts were also audited by the external auditors and given an unqualified opinion. The consolidated accounts and the audit report were submitted to the Supervisory Board which approved them accordingly.

Dealings with Affiliated Companies

In compliance with Section 312 German Stock Corporation Act (AktG), the Management Board has prepared a report on the Bank's dealings with affiliated companies for the 2008 financial year. The auditors have issued the following certification of this report under Article 313 of the above Law: "Following our statutory examination and evaluation performed in accordance with professional standards, we hereby confirm that (1) the factual content of the report is correct; and (2) the payments made by the Company in the transactions listed in the report were not inappropriately high." The Board examined and noted with approval this report.

Organisational Changes on the Supervisory Board

Mr. David Hodgkinson, Group Chief Operating Officer of HSBC, retired at the end of 2008. In this context, he resigned from his office of Supervisory Board member in a letter received by the Bank on 17 November 2008. His resignation became effective after 15 December 2008. The county court in Düsseldorf has been asked to appoint a Supervisory Board member after the waiting period of three months prescribed by law for the period up to the Annual General Meeting on 9 June 2009.

Thanks

The Supervisory Board thanks the members of the Management Board for their open and trustworthy cooperation. It is also grateful to the staff whose work in the past year made a contribution to the Bank's success.

The Supervisory Board also thanks Mr. David Hodgkinson for his constructive cooperation.

Düsseldorf, April 2009

The Supervisory Board

Dr. Sieghardt Rometsch
Chairman

Report on Corporate Governance in 2008

Corporate Governance, an Integral Part of our Corporate Culture

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

The management and representation of the Bank is the responsibility of the Management Board, which consists of four persons, supported by the three members of the Executive Committee responsible for Corporate Banking, Investment Banking as well as Credit & Operational Risk.

The Management Board is overseen by the Supervisory Board elected with it. The Supervisory Board has 15 members, five of whom are chosen from the workforce. The Supervisory Board has formed three committees from its members:

- the Personnel and Nominations Committee, which is responsible for personnel matters relating to the Management Board (with the exception of the appointment and removal of its members), long-term succession planning together with the Management Board, dealing with conflicts of interests between Management Board or Supervisory Board members and the approval of connected party loans to Bank employees and members of the Supervisory Board as well as proposing candidates to the Annual General Meeting for the nominations for the Supervisory Board;

- the Audit Committee, which is responsible in addition to mandating the external auditors to audit the annual financial statements and consolidated accounts for determining the focus of the audit, monitoring the independence of the external auditors, arranging the fee contract with them as well as accounting and basic risk management issues;

- the Credit Committee, to which the Supervisory Board has transferred its right of veto in respect of loans which require the approval of the Supervisory Board either in accordance with the Bank's internal rules or pursuant to the German Banking Act (KWG). The Credit Committee is responsible furthermore for deciding upon the risk management strategy to be drawn up by the Management Board.

All Supervisory Board Committees comprise three members. The Chairman of the Supervisory Board is also Committee chairman only of the Personnel and Nominations Committee.

We have not adopted the recommendation of the Government Commission contained in Code no. 2.3.2 of the Corporate Governance Code to send notification of the convening of the Annual General Meeting together with the convention documents to all domestic and foreign financial service providers, shareholders and shareholders' associations by electronic means if the approval requirements are fulfilled. Implementing the recommendation in accordance with the law presents considerable practical difficulties in respect of bearer shares and presumably also involves considerable costs. In view of our shareholder structure, we see no practical need to propose the resolution of approval required for implementation to our Annual General Meeting.

The recommendation of the Government Commission contained in Code no. 3.8 that a suitable deductible shall be agreed if the Bank takes out a directors' and officers' liability insurance policy (D & O) for the members of the Management Board and the Supervisory Board has not been complied with. D & O insurance exists for the Management Board and Supervisory Board via HSBC's Group insurance policy. In addition, the Bank has taken out insurance for the claims not covered by the Group insurance. No deductible has been agreed for the Management Board and Supervisory Board. The insurance policies only cover damage caused by negligence, not damage caused with intent. A deductible does therefore appear to be appropriate.

Based on our experience to date, we have decided only to adopt the recommendations of the Government Commission contained in Code no. 5.4.3 of the Corporate Governance Code subject to the proviso that Supervisory Board elections only take place as individual elections if an application is made by a shareholder to this effect at the Annual General Meeting concerned. This upholds all protective interests at the same time as preserving the necessary flexibility. We have decided further not to apply the ruling in Sentence 3 of this Code no., according to which proposals for candidates for the Chairman of the Supervisory Board are to be announced to the shareholders. Re-elections of the Supervisory Board take place at the Bank for the entire Supervisory Board in each case for which a standard closing date for the election period applies according to our Articles of Association. In the event of the complete re-election of the Supervisory Board, it meets after the Annual General Meeting at which it was elected for a constituent meeting and elects the Chairman from its members. The announcement of the proposed candidates for the new Supervisory Board by the old Board would in our view be an unjustifiable burden on the new Supervisory Board in its discretionary powers. Even though the newly-elected Supervisory Board is not legally bound to the candidates announced by the old Board, any deviation by the new Supervisory Board would be associated with negative publicity which could harm the company.

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

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

Compensation Structures

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

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Personnel and Nominations Committee and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both. The cash component amounts to at least 50% of the variable compensation. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The shares allocated will no longer be transferred in three equal amounts, but in one amount in early 2012. Price risks and opportunities arising from the shares allocated in the period up until transfer lie exclusively with the respective Management Board members. In addition, we refer with respect to the compensation system for the Management Board members to the corresponding explanations in the Management Report as well as in Note 68 of the consolidated financial statements of HSBC Trinkaus & Burkhardt AG.

The Annual General Meeting decided with the required three-quarters majority on 5 June 2007 that the individual emoluments of the members of the Management Board are not to be published. The recommendation of the Government Commission on the disclosure of the total compensation of each member of the Management Board Code no. 4.2.4 is therefore not applied.

The compensation of members of the Supervisory Board – including fees paid for advisory services – is also reported under Note 68 of our consolidated accounts. The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the deputy chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

The recommendations of the Government Commission on the publication of the individual emoluments of the members of the Supervisory Board contained in Code no. 5.4.6 have not been complied with. As regards payments for personal services provided, such as advisory services, the Management Board and the Supervisory Board are of the opinion that this would encroach extensively upon the personal rights of the Supervisory Board member with no absolute necessity.

Information, Disclosure and Transparency

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

As before, we shall publish our consolidated financial accounts and our interim reports with the deadlines prescribed by law. In the interest of greater timing flexibility concerning the production of our reports, we shall not adopt the Government Commission recommendations on the tightening of deadlines contained in Code no. 7.1.2 of the Corporate Governance Code.

The list of third party companies in which the Bank holds a material interest is published in our Annual Report under Note 63. We have adopted the recommendation on publication contained in Code no. 7.1.4 of the Corporate Governance Code, subject to the proviso that we only report those investments whose amount exceeds a legal disclosure threshold.

Reportable Dealings in HSBC Trinkaus & Burkhardt Shares or in Rights to those Shares under Section 15 a of the Securities Trading Law (WpHG)

No dealings in HSBC Trinkaus & Burkhardt shares, or in rights to those shares which require reporting in accordance with Section 15 of the Securities Trading Law or Code no. 6.6 of the Corporate Governance Code, were carried out in 2008 by persons obliged to report such dealings.

Day-to-Day Monitoring

We have entrusted the Head of the Company Secretariat of our Bank with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2008 financial year, no infringements of these rules were identified, in terms of the form, content or spirit of the Corporate Governance Code, and our external auditors have confirmed this finding.

Düsseldorf, February 2009

For the
Management Board:

Andreas Schmitz
– Chairman –

For the
Supervisory Board:

Dr. Sieghardt Rometsch
– Chairman –

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, 9 February 2009

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

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Interpretation and Evaluation of Statements about the Future

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. The information is based on the consolidated figures at the close of the 2008 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our consolidated statements. To allow you to evaluate our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included. In addition, this publication contains statements of our expectations concerning our Group's progress during 2009. Such statements about the future can be found in particular in the Letter from the Management Board to our shareholders in the 'Outlook for 2009' section, in the section on our company's strategy and also in many other places throughout this Annual Report. These statements about the future are based on our expectations of future economic and political developments and on our assumptions about the effects these will have on business progress and our related business plans. All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the financial year 2009 becoming obsolete or outdated. We accept no obligation to adjust our forecasts, assumptions and expectations in the light of new information or in line with subsequent events to reflect the new level of knowledge, nor to update our Annual Report through subsequent publication of such changes.

Key Dates

2 April 2009
Results Press Conference

14 May 2009
Interim Report as at 31 March 2009

9 June 2009
Annual General Meeting

13 August 2009
Press Conference
Interim Report as at 30 June 2009

12 November 2009
Interim Report as at 30 September 2009

Five-year Comparison of Consolidated Figures in €m

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

* Up to and including 2005, inflows and outflows of liquidity from repo and securities lending transactions are reported under loans and advances to banks or customers / deposits by banks.
** The prior-year figures were adjusted retrospectively in 2008 pursuant to IAS 8 as a result of the first-time application of IFRIC 11, Group and Treasury Share Transactions.