Annual Report 2010

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2010	2009	Change in %
Results in €m			
Operating revenues	667.3	619.6	7.7
Net loan impairment and other credit risk provisions	7.7	22.4	−65.6
Administrative expenses	439.3	400.8	9.6
Operating profit	220.3	196.4	12.2
Pre-tax profit	210.0	163.7	28.3
Tax expenses	70.6	54.5	29.5
Net profit for the year	139.4	109.2	27.7
Balance sheet figures in €m			
Total assets	18,584.0	18,728.6	−0.8
Shareholders' equity	1,289.7	1,062.5	21.4
Ratios			
Cost:income ratio of usual business activity in %	66.9	68.3	–
Return on equity before tax in %	19.6	17.1	–
Net fee income in % of operating revenues	60.5	55.9	–
Funds under management and administration in €bn	115.3	99.1	16.3
Employees	2,440	2,280	7.0
Share information			
Number of shares issued in million	28.1	26.1	7.7
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	5.14	4.12	24.8
Share price as at 31.12. in €	89.0	98.0	−9.2
Market capitalisation in €m	2,501.6	2,557.8	−2.2
Regulatory ratios*			
Tier 1 in €m	1,058	817	29.5
Regulatory capital in €m	1,397	1,160	20.4
Risk-weighted assets in €m	8,113	7,850	3.4
Tier 1 ratio in %	13.0	10.4	–
Regulatory capital ratio in %	17.2	14.8	–

*following confirmation of the balance sheet

Annual Report 2010

HSBC Trinkaus & Burkhardt

Date of issue: April 2011

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Ladies and Gentlemen,

The financial crisis continued to dominate financial market and economic events in the year of our 225th anniversary. Currently proceeding in the form of a government debt crisis, it will continue to occupy us in the near future as well. Under this general framework, Germany's astonishing economic recovery appears to be like a "German miracle". According to the latest figures, the 3.5 % real growth in 2010 was the strongest recorded since reunification.

Against this backdrop, HSBC Trinkaus generated the strongest result in the Bank's history. Pre-tax profit was up by 28.3 % to the record figure of € 210.0 million. Operating profit rose by 12.2 % to the historical high of € 220.3 million and there was significant growth in the Tier 1 ratio to 13.0 %following the payment of dividends . The Bank already meets the future requirements regarding the composition of core Tier 1 capital and the capital requirements for loan security very clearly. With this result, we outperformed the most successful year to date, 2007, the last year before the crisis. In the light of the good results, the Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of an unchanged dividend of € 2.50 for 2010 on the increased share capital.

The Bank not only successfully survived the financial crisis with consistently solid positive results, but even came out of it in a stronger position. The result underlines the success of our proven business model. It is characterised by its clear orientation towards the target groups of high net worth private clients, corporate clients and institutional clients and is supported by risk-aware trading. The Bank's success is guaranteed by the unique combination in the German banking landscape of the highly-personalised service orientation of a private bank with the international service capacity and capital strength of the HSBC Group. The AA rating, which has been unchanged since 2007, is testimony to this – HSBC Trinkaus still has the highest Fitch rating among private commercial banks in Germany.

All client groups were able to make a significant profit contribution, underlining the balanced structure of the Bank. Its collaboration with the internationally operating HSBC Group puts the Bank in a unique position in the Corporate Banking business. Thanks to our network of locations in 87 countries, we accompany our clients worldwide with products, services and local expertise. In recent years HSBC Trinkaus has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. The Private Banking segment also improved its results as well as its net inflows in asset management, benefiting among other things from the positive trend on the stock markets. The Bank gave the best performance on average in the relevant surveys in 2010 and was the only institution to rank consistently in the top quarter. The Institutional Clients segment generated the largest earnings contribution in the Bank. Strong revenues in particular in Investment Banking and the equities business from the placement of capital increases led to further growth. The sale of optimised fixed-income investments benefited above all from the growing variety of products offered by the HSBC Group.

We would like to continue along this path. With our "Growing on Strength" programme launched in 2010, we want to use the current year as well as the years ahead to significantly expand our market share in all business segments. The focus is on the significantly expanding the business with corporate clients in the upper SME segment. Our aim is to position ourselves with an extended service and product offer as one of the three leading banks for internationally oriented corporate clients. Our particular strength is using the connections between the individual country units of the HSBC Group to the benefit of our clients. It is also our goal to be one of the most important service providers for high net worth private clients. We will be expanding our business significantly in the years ahead in particular at our branch locations, of which there are now seven. We have set up a new branch in Cologne which is already showing the first successes and from which we expect additional growth impetus in the business with high net worth private clients in the months and years to come. In the Institutional Clients segment we would like to actively use the market opportunities which arise for us as part of the HSBC Group. For example, we have direct access to the Group's global trading books which also enable large-volume transactions and risk assumption, thus offering our clients added value. The business with warrants and certificates for independently operating private investors, where we again received significant awards in 2010, is also to be expanded further. These goals are being supported among other things by the capital increase with a volume of around € 150 million successfully completed last summer.

Within the scope of our growth strategy, the number of employees at the Bank is also to be increased further in 2011 to over 2,500. Our successes are based on the particular commitment and outstanding performance of our employees. We want to promote both of these further and are investing more strongly in training measures this year as well. We are also increasingly using the global network of the HSBC Group here and supporting international work placements. Our staff members benefit not only from the professional training, but also from the cultural diversity which the Group offers. The Diversity & Inclusion programme, which supports diversity and equal opportunities in the company and promotes the integration and appreciation of our employees, is expected to expand this advantage further.

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




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

Düsseldorf
Baden-Baden   Berlin   Cologne
Frankfurt am Main   Hamburg
Munich   Stuttgart

Executive Committee
Dr. Christiane Lindenschmidt (from 1 January 2011)
Dr. Rudolf Apenbrink (from 1 January 2011)
Florian Fautz
Manfred Krause

HSBC Trinkaus is in a unique position among the German banks: part of a global network as HSBC in Germany and with local connections as a private bank since 1785.

We offer our target groups – wealthy private clients, corporate clients and institutional clients – "The best of both worlds". We combine a highly personalised and individual service maintaining client relationships on a long-term basis with the financial security and international dimensions of one of the world's best capitalised and most profitable banks. We guarantee you access to sophisticated financial services, exclusive market information and first-class contacts in 87 countries.

Values have always been an integral part of our corporate culture and the basis for our business activities. This was also the motto for our anniversary year: "Committed to values. For 225 years". Taking this stance the Bank has successfully coped with countless crises and challenges. This philosophy helped us to come out of the financial crisis in a stronger position. The trust our clients place in us is based on this.

The quality of our offer in the traditional banking business is one of our particular strengths. Furthermore, we offer our clients tailor-made concepts for complex tasks which we combine with innovative products and services – worldwide. The assertion of this major claim is guaranteed by our employees. They are creative, highly committed and solution-oriented with outstanding product and servicing expertise, which is constantly being promoted further.

Our business model has proven itself and we have major expertise in our core lines of business. We pursue a long-term strategy and deal with risks in a highly responsible manner. Our goal is to grow further with our clients and steadily expand our market share. As part of the HSBC Group we accompany our clients into the markets of the future.

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
Group Chief Executive,
HSBC Holdings plc, London

Peter Boyles (from 8 June 2010)
Chief Executive Officer Continental Europe,
Deputy Chairman France,
HSBC France, Paris

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

Timo Grütter*, Wesel (from 8 June 2010)
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

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

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

Oliver Honée*, Essen
Bank employee

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

Mark McCombe (until 8 June 2010)
Chief Executive Officer Hong Kong,
The Hongkong and Shanghai Banking Corporation Ltd,
Hong Kong

Friedrich Merz, Arnsberg (from 8 June 2010)
Partner,
Mayer Brown LLP

Hans-Jörg Vetter
Chairman of the Management Board,
Landesbank Baden-Württemberg, Stuttgart

Jörn Wölken*, Lohmar (until 8 June 2010)
Bank employee

* Employees' Representative

Supervisory Board Committees

Credit Committee
Stuart Gulliver
Chairman
Group Chief Executive,
HSBC Holdings plc, London

Peter Boyles (from 8 June 2010)
Chief Executive Officer Continental Europe,
Deputy Chairman France,
HSBC France, Paris

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

Mark McCombe (until 8 June 2010)
Chief Executive Officer Hong Kong,
The Hongkong and Shanghai Banking Corporation Ltd,
Hong Kong

Deputies:

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

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

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

Personnel and Nominations Committee
Dr. Sieghardt Rometsch, Düsseldorf
Chairman
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Stuart Gulliver
Group Chief Executive,
HSBC Holdings plc, London

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

Audit Committee
Wolfgang Haupt, Düsseldorf
Chairman
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Peter Boyles (from 8 June 2010)
Chief Executive Officer Continental Europe,
Deputy Chairman France,
HSBC France, Paris

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

Mark McCombe (until 8 June 2010)
Chief Executive Officer Hong Kong,
The Hongkong and Shanghai Banking Corporation Ltd,
Hong Kong

Advisory Board

Friedrich Merz (from 25 March 2010)
Chairman
Partner,
Mayer Brown LLP

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

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

Dr. Olaf Berlien
Member of the Management Board,
ThyssenKrupp AG

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,
KATRHEIN-Werke KG

Dipl.-Kfm. Sigmund Kiener
Owner,
S. K. Management- und Beteiligungs GmbH

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

Professor Dr. Jörg-Andreas Lohr
Chairman of the Management Board,
Flick Privatstiftung,
Managing Partner,
Lohr + Company GmbH Wirtschaftsprüfungsgesellschaft

Udo van Meeteren

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

Jürgen Meisch
Member of the Management Board,
Gothaer Finanzholding AG

Ludwig Merckle
Merckle Service GmbH

Dr. Markus Michalke
Managing Director,
MIC Asset Management GmbH

Hildegard Müller
Member of the Presidium,
Chairman of the Executive Board
BDEW Bundesverband der Energie- und
Wasserwirtschaft e. V.

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
Member of the Management Board,
E.ON AG

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

Dr. Botho von Schwarzkopf
Managing Partner,
Pfeifer & Langen IHKG

Professor Dr. Klaus Schweinsberg
INTES Stiftung für Familienunternehmen

Professor Dennis J. Snower, Ph. D.
President of the Kiel Institute for the World Economy

Helmut Späth
Deputy Chairman of the Management Board,
Versicherungskammer Bayern

Norbert Steiner
Chairman of the Management Board,
K+S Aktiengesellschaft

Thomas Unger
Chief Executive Officer,
Constantia Packaging GmbH

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

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

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Finally, 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 8 June 2010, 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 7 June 2015.

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 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 Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both.

As in previous years, the performance-related components for 2010 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. 50 % of the shares allocated as variable compensation in 2010 for 2009 will be transferred in each of the second and third year after being committed, in other words in 2012 and 2013. A third of the shares of HSBC Holdings plc allocated as variable compensation for the 2010 financial year will be transferred to three Management Board Members in each of the next three financial years, i.e. from 2012 to 2014. For one Management Board Member a third of the so-called Long Term Incentive of the variable compensation for 2010 will be paid in each of the following three years, 2012, 2013 and 2014; half of each of these three tranches will be paid in cash and the other half in shares of HSBC Holdings plc, for which a further holding period of six months is stipulated.

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

Individual information on the extent and composition of the payments made to the members of the Management Board during the 2010 financial year can be found in Note 68 "Business Relationships with Companies and Persons Defined as Related Parties".

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

The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100.00 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the deputy chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a Committee receive one-and-a-half times the aforementioned compensation of a Supervisory Board member. If a member of the Supervisory Board holds several offices, he / she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a 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 2010 financial year – including fees paid for advisory services – 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 Dr. Christiane Lindenschmidt (from 1 January 2011), Dr. Rudolf Apenbrink (from 1 January 2011), Mr. Florian Fautz 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
Strategic Planning
Corporate Communications
Audit Department and
Data Protection

Central Functions B

Paul Hagen
Management Board

Human Resources
Accounting
Controlling
Market Risk Control
Operational Risk and
Internal Controls

Division I

Dr. Olaf Huth
Management Board

Private Banking

Division II

Andreas Schmitz
Management Board

Syndicate/Issuing Business

Florian Fautz
Executive Committee

Investment Banking

Manfred Krause
Executive Committee

Corporate Banking
Foreign business

Division III

Carola Gräfin v. Schmettow
Management Board

Institutional Clients

Dr. Rudolf Apenbrink
Executive Committee

Asset Management

Division IV

Carola Gräfin v. Schmettow
Management Board

Global Markets

Division V

Paul Hagen
Management Board

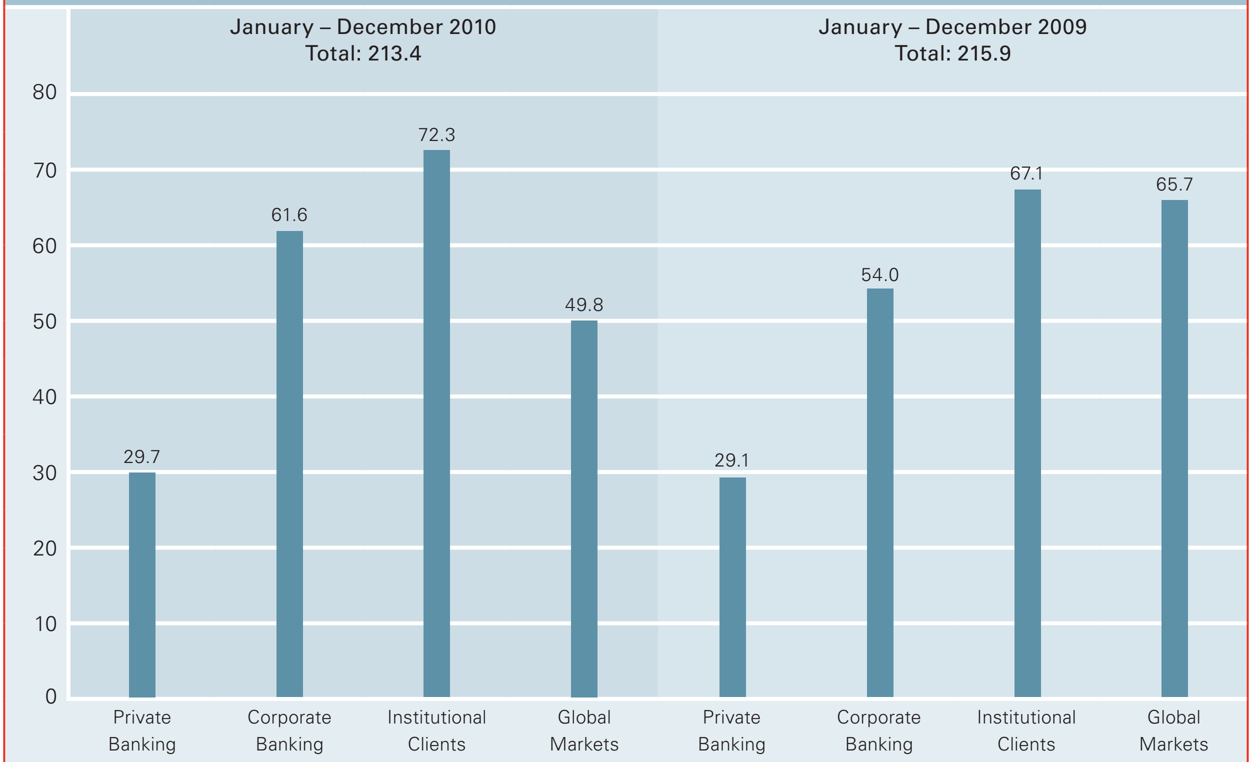
Credit Securities Services

Dr. Christiane Lindenschmidt
Executive Committee

Technology and Services

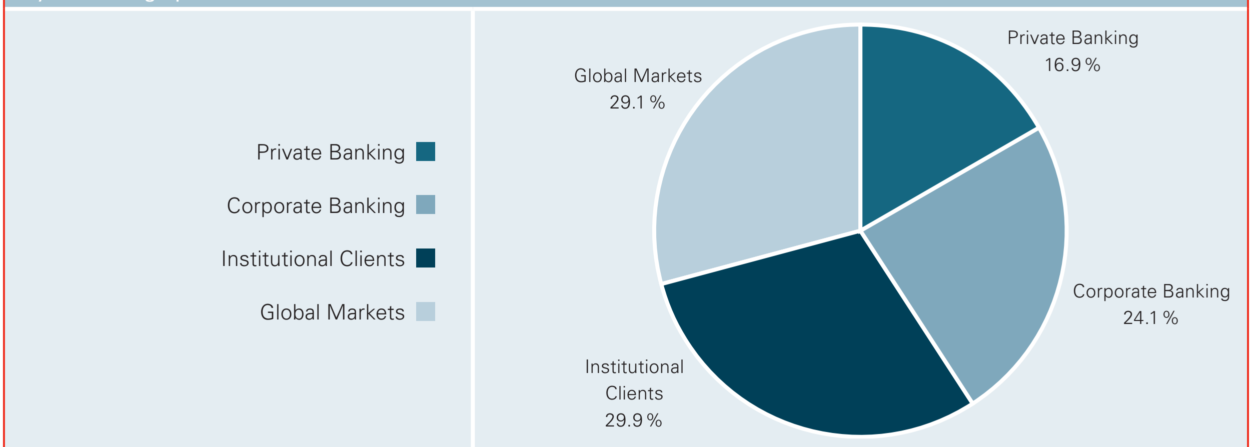
Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Global Markets. Divisional profits are calculated on the basis of partial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

Contributions to profit in €m



After allowing for a total of € 6.9 million for head office functions during 2010, as against € – 19.5 million for 2009, the 2010 operating profit was € 220.3 million (2009: € 196.4 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions



Strategic Direction

General economic setting

The financial crisis continued to dominate financial market and economic events in the year of our 225th anniversary. Against all hopes, the crisis has not yet become part of economic history, but continues to spread unfailingly to new areas. What started as a subprime crisis went on to force several banks to file for bankruptcy and lead others to the brink of disaster, to then usher in the deepest recession since 1929. It is leading at present to a government debt crisis which has now also reached public finances, the innermost defence wall of our national economies.

In this environment, Germany's astonishing economic recovery appears to be like a "German miracle". According to the latest figures, the 3.5 % real growth in 2010 was the strongest recorded since German reunification. The number of registered unemployed fell below the 3 million mark and the number of gainfully employed persons increased to over 41 million. Thanks to the robust internal financing of German industry the credit crunch which had been feared failed to materialise. Even the banks are in a better position today than at the beginning of last year with the burdens on credit books remaining far below the expectations thanks to the rapid recovery of the real economy.

While internal affairs are comparatively favourable, Germany sees itself as being confronted abroad with a government debt crisis in Europe. As was the case with the subprime crisis, the dimensions of this crisis are by no means yet reliably measurable. This applies to Europe just as much as to the euro and to Germany. The loss of confidence in the euro and in the financial policy of the euro countries led to the eurozone crisis. As a result, the call is growing louder that the credit standing of the still financially strong countries in the eurozone be diluted via the issue of a Eurobond and brought down the level of the weak countries – with unforeseeable consequences for Germany.

Economic growth in Germany in 2010 appears to be only a temporary phenomenon. Growth will slow down not only in Germany but also worldwide as the circle of growth drivers is limited to only a few foreign markets, led by China and Brazil. The impact of the expansionary monetary policy will weaken and no end to the serious debt problem, in particular in the USA, is in sight. On the other hand, the significance of the Asia-Pacific region will grow further and global wealth will be redistributed. While attention is focused on China, the other emerging markets such as Brazil, India, Indonesia and Vietnam are also to be pointed out. Their key data – 80 % of the world's population, 50 % of global value creation, 40 % of global consumption, two-thirds of the world's growth, but only 15 % of market capitalisation – make it clear what a shift in economic output to these regions is to be expected.

While a new trouble spot has been revealed with the government debt crisis, the cleaning-up operation in the financial sector got under way last year. After the major loss of confidence accompanying the financial crisis, regaining the confidence of its customers and shareholders, but also of the political system and the regulatory authorities, is decisive for the sector. This crisis has given us the chance to learn the right lessons, develop improved standards in the banks and better rules for the financial markets. The financial market crisis revealed fundamental weaknesses in the financial system that have to be removed by introducing better regulatory standards and clearer playing rules for the financial markets. An internationally uniform approach is a precondition here if the German banking market, which is at any rate below average in terms of profitability in an international comparison, does not want to lose even further competitive strength. However necessary it is to make significant adjustments to the rules, balanced regulation with a sense of proportion is required in order that overregulation of the financial markets does not stand in the way of a sector recovery. The ability to create equity capital may not be burdened in particular. A decline in lending and therefore the restriction of the real economy in an upswing is to be avoided.

However, beyond the necessary government regulation and independent measures taken by the banks, the following still applies: the key to the success of a bank and a functioning financial market overall lies in consistent business models which focus on the customers and enable long-term economic success based on proven values. The financial crisis has revealed quite clearly here market participants without a sustainable business model who have in the end become a burden for the financial system and the taxpayer. The end to the distortion of normal trading conditions, which the European Commission is pushing for among other things, will lead to a major change in the German banking landscape.

HSBC Trinkaus' orientation in the current environment

HSBC Trinkaus proved again in the 2010 financial year that the unique combination of its business model is convincing even in times of crisis. This was underlined by the record result reported in its anniversary year. Having been founded in 1785, the Bank stands today, four revolutions, half a dozen wars, six different currencies, eleven different state systems and regimes as well as various changes of ownership later, on extremely solid foundations. And even the recent crises have not changed this. In contrast to many other banks, we have succeeded in coming out of the financial crisis in a stronger position. The fact that the rating has been unchanged since the end of 2007 is proof of this – with a long-term "AA" issuer rating, HSBC Trinkaus still has the best Fitch rating among the German private banks.

We want to remain successful in the challenging market environment through consistent orientation to clearly defined target groups and pronounced risk awareness in 2011 as well. Our success remains based on:

- our stable base of values such as trust, honesty, sense of duty and responsibility
- our strong capital base, also with respect to future regulatory requirements
- our earnings power, which has been above average for years also in relation to the competition
- our long-standing and motivated staff
- our products and services which meet with our customers' satisfaction
- our close cooperation with the HSBC Group

The secret to becoming 225 years old as a bank lies among other things in always remaining true to yourself. The fact that we can rely on a stable and reliable shareholder, HSBC, contributes to our unique position in the market. The close cooperation with the HSBC Group means that we are one of the few competent addresses for international business in the German market for more and more clients. With the "Growing on Strength" programme launched last year, we are consistently pursuing the goal of positioning ourselves as one of the three leading banks for internationally oriented corporate clients. We are using the global network of the HSBC Group even more intensively for this. HSBC Trinkaus takes a particular interest in using the connections between the individual country units of the HSBC Group to the benefit of our customers, seeing ourselves as a pioneer in global exchange in view of Germany's status as a leading export nation.

Our growth efforts are being supported by the HSBC Group's assessment that it is represented by HSBC Trinkaus in a strategically important core country, the significance of which for HSBC is expected to grow even further. In concrete terms it is expected to lead to a significant increase in the German contribution to the HSBC Group's pre-tax profit in the medium term. We want to realise this with organic growth, but as a basic principle also by acquiring assets. We regularly examine the steadily growing number of possible addresses in the market in order to make selective acquisitions. These considerations are based on our strict requirements of sustainable and profitable investments.

The international network of the HSBC Group is not only a competitive advantage which we use in the client business, but also a valuable asset in the competition for good employees. We actively promote sending our employees on work placements within the HSBC Group. Our staff members benefit here not only from the professional training, but also from the cultural diversity which the Group offers. This is a fundamental component of HSBC's corporate culture and at the same time one of the main strengths of the "world's local bank". HSBC's Diversity & Inclusion programme, which supports diversity and equal opportunities in the company and promotes the integration and appreciation of our employees, is expected to expand this advantage further. Diversity & Inclusion has been declared a management responsibility. HSBC Trinkaus is energetically supporting this programme as an expression of contemporary company management and a humane working environment.

Overview of our strategy

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

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

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

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

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

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

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the range of powerful products and the respective regional networks in 87 countries.

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

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

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

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

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

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

The long-standing and successful business relationships with our customers as well as their positive feedback, not least in our anniversary year, have strengthened our conviction that we are on the right track. In the spirit of our long-standing tradition, we remain committed to our values; future needs tradition.

The 2010 Financial Year

General economic setting

After the hefty recession in 2009, the global economy returned to its growth path in 2010, propelled by strong growth in the emerging markets. One of the main beneficiaries of this trend was Germany, which generated GDP growth of 3.6 % in 2010. The upswing in Germany was driven not only by the export sector, but also increasingly by domestic demand. Gainful employment, which rose to a new record high over the course of the year, contributed to this among other things. Overall the German economy therefore grew at a faster pace than the entire Eurozone, but also than the USA. The upswing in the Eurozone was dampened by the crisis in the peripheral countries. Although rising commodity prices saw to a global increase in inflationary pressure over the course of the year, the impact on consumers in the developed economies was weaker. In Germany price inflation averaged 1.1 % in 2010.

In an environment of low inflationary risks and moderate growth, the ECB left the key interest rate unchanged at 1.0 %. Owing to refinancing problems at several banks in the Eurozone, the ECB also continued to provide the banking system with unlimited liquidity. In order to prevent the government debt crisis in the Eurozone from getting out of hand, the central bank also bought government bonds. The US central bank left the Fed Funds Rate unchanged at 0 % to 0.25 % and at the end of the year even set up another comprehensive programme (volume: $ 600 billion) to acquire government bonds up to June 2011.

Low central bank rates and surplus liquidity saw to a good performance on many stock markets: the DAX rose by around 16 % over the course of the year and the S&P 500 by 15 %. The broad European market was not able to match this performance. Bundesanleihen benefited from their role as a safe haven in 2010. The yield on ten-year government bonds reached a new historical low of 2.1 %, but rose notably again at the end of the year. Owing to the government debt crisis the euro fell against the US dollar to below $ 1.20 over the course of the year, although it then ended the year at around $ 1.34.

Profitability

With an operating profit of € 220.3 million HSBC Trinkaus generated the strongest result in the Bank's history in the year under report. This represents an increase of 12.2 % or € 23.9 million compared to the previous year (€ 196.4 million). We were therefore able to substantially exceed our own expectations. There was an even stronger increase in pre-tax profit of 28.3 % or € 46.3 million to € 210.0 million. Net profit for the year came in at € 139.4 million and was therefore 27.7 % or € 30.2 million higher than the prior-year figure of € 109.2 million.

We expanded our proven business model in 2010. By focusing on our clearly defined target client groups and their requirements, we were able to make further advances in all client segments. As expected, Global Markets was not able to repeat the strong prior-year result as the Treasury activities benefited strongly, especially in the first half of 2009, from the crisis-induced distortions and the impact of the ECB interest rate cuts. The continuing speculation over the credit standing of individual Eurozone member states put hardly any pressure on our income from financial assets as we are only exposed to those countries with manageable bond holdings in the bank book.

The individual items of the income statement developed as follows:

Net interest income was down significantly by € 14.6 million or 10.2 % to € 128.7 million. As a result of the expansionary monetary policy pursued by the European Central Bank money market rates in euro were at an historically low level and we were therefore able to benefit from our high level of customer deposits only to a relatively minor extent. On the lending side, although margins were better than in the previous year, there was a slight decline again here. The much-feared credit squeeze failed to materialise. On the contrary, we found that the credit lines granted by the Bank were clearly underused owing to the strong internal financing of German companies. This shows how much the upper MME segment and large German corporations, in other words our target clients in the corporate banking business, have improved their financial situation in recent years. Nevertheless, it can be observed that this does not apply equally to all companies and that some are therefore still having to battle strongly with the repercussions of the economic crisis. Overall the share of net interest income of around 20 % of total operating revenues is in line with the Bank's business model, which is traditionally based on a very high share of net fee income.

We were able to reduce net loan impairment and other credit risk provisions compared to the previous year by € 14.7 million or 65.6 % to € 7.7 million. This was due mainly to the surprisingly rapid and strong improvement in the global economic situation, from which we were able to benefit more than proportionately in Germany with an unexpectedly strong economic recovery. We were therefore able to reverse € 2.5 million in collectively assessed impairments in the year under report after having to add € 9.0 million the previous year. We also made far lower additions to individually assessed impairments than in the previous year while reversals of individually assessed impairments remained more or less on the prior-year level. Overall, the pressure on the credit books of all banks still feared at the beginning of the year failed to materialise over the course of the year under report.

There was a significant increase in net fee income of € 57.8 million or 16.7 % to € 404.0 million. The fact that we were able to improve almost all components is particularly favourable. The main developments were as follows:

- We benefited in particular from several large equity capital market transactions for listed German companies in the year under report which led to extraordinarily high net fee income in Investment Banking of € 34.2 million. On the other hand, there was a slight decline in the issuing and structuring business as the very high volume of new issues on the bond market the previous year could not be repeated. We underlined our claim of being able to offer the entire range of potential solutions in the capital market business for our institutional and corporate clients. Our fee-based business remains focused on all services in the traditional securities business. We were able to improve net income here as well by € 20.6 million or 8.7 % to € 257.3 million. The Asset Management business in particular, including depositary bank business and fund administration, clearly exceeded the already good prior-year result.

- In the fee-based business with foreign exchange and derivatives we were able to increase net fee income with respect to derivatives on both interest rates and equities. This was due not least to even stronger co-operation with various companies of the HSBC Group which mainly take the risks involved with these transactions directly onto their own books and therefore contribute to competitive pricing. There was a particularly strong increase in the foreign exchange business, although margins in traditional forex trading remain very narrow on account of the electronic trading platforms. The risks are largely entered directly in the books of other HSBC units here as well.

- Results also improved in traditional services in the foreign and lending business. Not least the first successes of our growth initiative, which is aimed above all at expanding our market share in the corporate banking business, are already visible here.

- Alternative investments have increasingly established themselves as their own asset category for our sophisticated clients. Above all institutional investors, but also to a lesser extent corporate clients and high net worth private clients appreciate the diversification effect of these products. By offering more and more optimised solutions, we provide our clients with a one-stop access to various products in this asset category.

Net trading income declined slightly by € 2.6 million or 2.1 % to € 120.4 million. Operating trading income (excluding results from derivatives held in the banking book) was up by € 6.7 million or 5.7 % to € 124.6 million, as we were able to improve our performance in all trading divisions. Our performance in trading with equity and equity/index derivatives is based primarily on the issue and market making of retail products. We continue in 2009 to attach major importance in this market to transparency and customer satisfaction as a guarantee for sustained business. While the Treasury business benefited from the crisis-related distortions on the money market in particular in the first half of the year, the Treasury result reached a high level in 2010 but as expected recorded a significant decline, despite our still very good liquidity position. On the other hand, we clearly benefited from narrowing credit spreads with respect to our bond positions in interest rate trading. The foreign exchange business also grew by more than 10 % from € 7.8 million the previous year to € 8.6 million. Valuation losses on derivatives in the bank book of € 4.2 million were reported in the year under review compared to valuation gains of € 5.1 million the previous year.

Administrative expenses were up € 38.5 million or 9.6 % to € 439.3 million. This trend is due essentially to our growth path, which requires not only an increase in the workforce and therefore also higher personnel expenses, but also considerably higher material expenses such as office costs, IT expenses, etc. Furthermore, performance-related remuneration increased parallel to the significant improvement in the overall result. In addition, the costs of a banking operation have been rising more than proportionately for years as a result of growing regulatory control as well as the constant transfer of new tasks stipulated by the government to the banks – relating in particular to tax collection.

With income from financial assets showing a loss of € 0.6 million versus a loss of € 24.0 million the previous year, we were able to significantly improve our performance in 2010. This was due firstly to the fact that the markets continued to calm down and secondly to the early adjustment of our financial assets portfolio for almost all investments with low credit ratings. Almost no impairments were therefore required in the year under report and thanks to our traditionally conservative valuation standards there were also no significant losses on disposal. Our exposure to the peripheral states under pressure in the Eurozone is narrowly limited with very short maturities in part.

While other operating income / expenses declined by € 2.0 million or 17.4 % to € 9.6 million, we were able to reduce net other expenses from € 13.8 million to € 5.5 million. This was attributable above all to lower expenses for a real estate project in Australia.

The increase in tax expenses of 29.5 % or € 16.1 million to € 70.6 million was only slightly stronger than the growth in pre-tax profit. This gives a tax rate of 33.6 % after 33.3 % the previous year. Most of the taxes are due in Germany.

The asset situation

Total assets were almost unchanged at € 18.6 million as of the balance sheet date after € 18.7 billion the previous year. There were no major changes to the structure of our balance sheet either. The consistency in total assets and balance sheet ratios shows that we did not have to change our business model, despite the financial market crisis, as it proved itself again in the balanced nature of the client segments combined with risk-aware proprietary trading. Instead, we were able to dedicate ourselves fully to implementing our growth initiative, in particular in the corporate banking business.

There was a significant decline on both the assets and liabilities side in loans and advances to banks and deposits by banks. This development is mainly reporting-date-related and largely concerns money market transactions with other HSBC units the previous year.

On the other hand, loans and advances to customers and customer accounts rose substantially. Customer deposits remain our most important source of refinancing. At € 10.1 billion they accounted for around 54.6 % of total equity and liabilities on the balance sheet date. Given our still excellent liquidity position, we can make sure that each transaction is profitable and therefore completely refrain from offers with temporarily increased deposit interest. We show a stable deposit base in all business segments.

In addition, we also refinance our business, in particular our trading assets, from the structured products issued, above all promissory note loans, warrants and certificates, which we report under trading liabilities. On the balance sheet date they amounted to just less than € 2.9 billion versus € 2.6 billion the previous year, underlining our success in the hotly contested retail market for exchange-traded warrants and certificates. Trading liabilities also include the negative market value of the derivatives and are almost unchanged versus the previous year at € 5.2 billion or 28.0 % of the balance sheet total. We refer to the section on our financial position for the increase in shareholders' equity.

The € 0.4 billion increase in loans and advances to customers to € 3.1 billion corresponds to our general guideline that we want to grow with our clients. We still see a great deal of growth potential here in particular as firstly, the credit lines granted to our clients were extremely underused despite the alleged credit crunch and secondly, we are also planning significant new lending business within the scope of our growth strategy.

Trading assets rose slightly to € 10.1 billion as of the balance sheet date after € 10.0 billion the previous year. With a share of around 54.5 % and 53.4 % the previous year they represent the largest item on the assets side of our balance sheet. Bonds, which are mostly exchange traded and also eligible, account for almost half of trading assets. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. We further increased financial assets by € 0.2 billion or 5.8 % to € 3.3 billion. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion which we have continuously expanded. We have further reduced our already limited exposure to the peripheral states in the Eurozone in both trading and in financial assets.

The financial position

We increased our capital by € 150.6 million in summer 2010 by issuing new shares at a ratio of 1 for 13 at a price of € 75.00 per share. Furthermore, HSBC Trinkaus & Burkhardt AG transferred € 60 million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 8 June 2010. Overall we have increased our shareholders' equity very considerably by € 227.2 million or 21.4 % to € 1.3 billion. At this year's Annual General Meeting on 7 June 2011 we will propose the payment of an unchanged dividend of € 2.50 per share on the increased number of shares enabling a further allocation to retained earnings of € 70.0 million from profit available for distribution.

As one of the consequences of the financial market crisis, the supervisory authorities worldwide are drastically tightening the capital requirements for banks. Firstly, more restrictive requirements for the recognition of liability equity capital are being defined. Secondly, higher minimum capital ratios in relation to the risks involved with the banking business are being introduced step by step. As our core capital already consists exclusively of subscribed capital and reserves today, we already fully meet the future requirements regarding the composition of core capital (core Tier I capital). By increasing capital and making allocations to retained earnings from profit available for distribution, we have made sure that we also already exceed by far the higher capital ratios applicable in future. This means that we are very well equipped for the coming supervisory changes with respect to the capital requirements for banks and also still have scope for business expansion or acquisitions.

Our risks-weighted assets in the lending business declined slightly by around 1.1 % to just less than € 5.9 billion despite the growth in our credit book. This expresses both the improved ratings as a result of the significant economic recovery in Germany and the relative restraint of our clients in using the credit lines granted. On the other hand, the market risk equivalent rose by over 30 % to almost € 1.1 billion. This increase is primarily the consequence of the change in the consideration of credit spread risk in our value at risk model for the trading book. The broadening of our revenue base is reflected in a 5.6 % higher obligation to provide capital backing for operational risk. Overall the regulatory risk position amounts to € 8.1 billion and is therefore around € 0.3 billion or 3.4 % higher compared to the previous year.

Following the payment of dividends this gives a Tier 1 ratio of 13.0 % and a total capital ratio of 17.2 %. This way above average capitalisation will provide our growth strategy with lasting support.

As a further lesson drawn from the financial market crisis, the regulatory authorities worldwide are drastically tightening the requirements for banks with respect to liquidity and the management of liquidity risk. We are already in a good position today in this respect as well. Firstly, with our strict liquidity risk management we already fulfil to the greatest possible extent the requirements of the Minimum Requirements for Risk Management (MaRisk) which were updated in December 2010 and extended significantly with respect to liquidity risk. Secondly, the substantial liquidity cushion we have already had for some time has been continuously expanded in recent years. We were therefore able to show growth in our liquidity cushion despite of the financial market crisis and a general shortage of liquidity. Further details of our management of risk in general and liquidity risk in particular can be found in the chapter "Risk Management".

Outlook for 2011

The economic upturn established in 2010 is expected to continue in 2011, with the emerging markets remaining the drivers of the global recovery. However, as the upswing has moved into a more mature phase, the growth momentum is likely to slow down. In the emerging markets in particular the tightening of monetary policy in reaction to the growing risk of inflation is acting as a drag. Since corresponding price risks cannot be discerned in the USA, the US central bank is leaving interest rates unchanged.

Of the countries in the Eurozone Germany remains the main beneficiary of the global economic recovery. The upswing is also being supported increasingly by internal forces. The stronger utilisation of capacities is forcing companies to make investments and the upswing on the labour market is supporting consumption. Overall we are expecting the economy to grow by 2.1 % in 2011 (2010: 3.6 %). For the entire Eurozone we are assuming GDP growth rates of just 1.7 % and 1.5 % for 2010/11. Rising commodities prices will lead to higher inflation in 2011. However, owing to the high unemployment in the Eurozone we are not anticipating lasting pressure on prices. Correspondingly there is no need for the ECB to raise interest rates in 2011. A lasting increase in yields at the long end of the yield curve need not be anticipated in this environment.

Thanks to the improved economic trend, the German banking system has been spared a tough performance test. Loan loss provisions turned out to be far lower than planned and took pressure off the banks' income statements. Nevertheless, the German banking sector is faced with major challenges with the implementation of higher capital requirements and tougher provisions with respect to maintaining liquidity.

These changes will have a far-reaching impact on several banks' business models. HSBC Trinkaus will be affected by this to a lesser extent. This is because we concentrate on the business with three clearly-defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than those banks which have strong investment banking activities, are dependent on proprietary trading and refinance themselves via the capital markets. Furthermore, the capital increase we carried out in summer 2010 has created scope for the expansion of our business also in the new regulatory environment.

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

We therefore want to continue along the path embarked on last year and use 2011 and the years ahead to gain additional market share in all business segments. The focus is on the significant expansion of business with upper MME corporate clients. But we will by no means neglect market opportunities presented to us in the private banking and institutional clients segments as well as in the business with warrants and certificates for independently operating private investors.

This expansion strategy is based on:

- qualified and committed employees who live the Bank's values and take the clients' requirements as the starting point for their activities
- the integration into the HSBC Group as one of the world's largest and most financially sound banking groups
- the Bank's strong capitalisation and good refinancing base

An expansion strategy means higher risks, but also greater opportunities. This applies in particular to the expansion of the lending portfolio with MME corporate clients. However, these risks appear to be manageable in the light of the positive trend in the German economy, even though we are expecting this growth momentum to slow down, not least due to the debt problems being experienced by several Western states as well as the inflationary tendencies in the emerging markets. The credit margins currently include more adequate risk premiums than in the past. Should other banks tend to withdraw from the credit business as a result of the higher capital requirements, we are confident that the margins will not deteriorate significantly and that we can grow in the market without lowering our credit standards.

The extremely low level of interest rates has already risen again in part and in view of higher inflation rates there is speculation over the European Central Bank tightening its monetary policy. Based on the cautious position-keeping in our financial assets, the trend towards higher interest rates which continued in January 2011 is not likely to have any major negative impact on the Bank's earnings situation, provided this trend does not accelerate unexpectedly.

There will be no significant growth in the overall volume of bank revenues in Germany in 2011 and 2012. We can therefore only increase our revenues in the years ahead by realising the targeted gain in market shares. Net interest income will play a more important role as net fee income will remain under pressure and we are planning to expand our credit volume.

Strict cost management is decisive in this situation. The increase in our administrative expenses is expected to slow down in the years ahead after rising significantly in 2010. We will make sure that the Bank's infrastructure remains strong in the long term by making sufficient investments. We are expecting our operating profit to reach the level of 2010, the best year in the Bank's 225-year history so far. This will require stronger revenues to balance out the increase in costs due among other things to the stricter regulatory requirements.

The precondition for this is that there is no major slump in share prices, perhaps as a result of distortions on account of government debt crises or a discussion over the future of the euro. Political tensions with destabilising developments could also trigger such a reaction. In addition, the pressure arising from credit risks is not likely to grow beyond the level of risk provisioning in 2010. We anticipate that the average credit rating of our portfolio will tend to improve in 2011 and see no increased credit risk at present, even in the event of the momentum of German exports slowing down. As our portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments, though. Furthermore, several member states of the Eurozone experiencing refinancing problems could dramatically change the backdrop to our current forecast.

Our exposure to the euro states with particularly high debt levels is limited. We are therefore not expecting it to result in any significant burdens here, provided the stabilisation which is becoming evident as a result of the government rescue packages continues. In the event of the restructuring of government debt with bond creditors and loan creditors suffering losses, doubts over the stability of banks with a high exposure to these problem countries could develop into a systemic risk.

We still regard a target 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. The ratio has remained stable within the target corridor in the past two years. We are again anticipating a ratio in the upper half of the corridor for the current financial year and also for 2012.

The targeted expansion of our market share is expected to be accompanied by increased revenues in all three client segments. We have already increased the number of employees in the Corporate Banking and Private Banking segments in order to realise these goals.

Through the opening of a new branch in Cologne we are expecting additional growth impetus in the business with high net worth private individuals for 2011 and the following years.

HSBC Trinkaus' collaboration with the globally-active HSBC Group gives the Bank a unique position in the Corporate Banking business. In recent years HSBC Trinkaus has proven itself a reliable partner for the German Mittelstand and has thus been able to acquire new clients. Our new expansion strategy, which also includes an extended service and product offer, such as factoring, will enable us to further increase our credibility as a reliable partner in the corporate banking business. We have already made allowance for the capital required for this in our strategy. The growth in our client base in recent years together with our expansion strategy gives us reason to believe that we will be able to further increase earnings in the corporate banking business.

We have only dampened expectations for the institutional clients business for this year. The transition from the ECB's crisis-induced low interest rate policy to higher interest rates again will lead to friction. We only stand out as a trusted advisor for our institutional clients if we provide them with individual solutions and products which are tailor-made to their requirements and which illustrate the targeted risk-return profile. The expertise in product development offered by the entire HSBC Group is available to our clients. For example, we have direct access to the Group's global trading books which also enable large-volume transactions and risk assumption, thus offering added value.

Thanks to our integration into the HSBC Group, we can gear our interest rate and foreign exchange trading activities exclusively to our clients' requirements. In addition, we benefit from the liquidity and capacity to assume risk of the HSBC Group's trading books. On the other hand, our equity trading and equity derivatives activities are being expanded further in the wake of the division of labour. A broad product range is expected to further increase our market share in certificates and warrants trading. Our excellent rating and the continuous tradability of the products are increasingly important differentiators for private investors. However, the demand for investment certificates is still far below the high volume seen in previous years and is limiting earnings opportunities. Our goal is to at least come close to the favourable earnings contribution generated in 2010. The same applies to Treasury business.

We plan to continue to invest in our IT systems on a clearly defined scale in order to further increase efficiency in different areas of the Bank. We will also make adjustments necessary for the integration of our business processes into the HSBC Group. In order to avoid operational risk, we will further improve our internal control system, even if this is accompanied by financial burdens. However, it is obvious that we have to put strict limits on our spending as the increase in regulatory controls will involve substantial additional costs.

The Bank is in a good liquidity and capital position. Our Tier 1 ratio of over 12 % of risk-weighted assets enables the return-oriented expansion of our business. The capital increase carried out in summer 2010 has provided us with an advantageous starting base in the competition. We are carefully observing the effects of the regulatory changes already announced and still to be expected. If necessary, we will adjust our business activities to the new regulatory requirements on a flexible basis in the next two years.

We will also keep a close eye on opportunities to make acquisitions if they offer synergies with our existing lines of business. We are particularly interested in asset management, fund administration and our depositary bank activities. We do not rule out the acquisition of interesting client portfolios either if it serves to expand the Bank's client base.

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

Risk Management

Definition

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

Principles of risk management policy

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

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

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

Since the beginning of the banking crisis and the collapse of the US investment bank Lehman Brothers, the old principle of "liquidity before profitability" has proven to be extremely valid in a market environment which has undergone drastic change. Issues relating to the Bank's liquidity position remain of the greatest priority for us. We have maintained our strong liquidity reserves and paid strict attention when investing the funds accruing in the money and capital 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 new banking supervisory requirements, which are currently being drawn up internationally, confirm our cautious stance.

The second central challenge facing our risk management was and is managing counterparty risk. The markets kept a very close eye on state solvency in 2010, focusing on several member states of the Eurozone. The need for the EU to set up a bailout programme for euro states prompted us to monitor and control our exposure to Eurozone states with a weaker credit standing even more intensively. We therefore significantly reduced our exposure to the so-called PIIGS states.

The impact of the economic downswing on corporate loans rapidly gained in significance in 2009. In the year under report this trend was reversed far more quickly and significantly than we had expected. We can observe easing in our credit portfolio which is also characterised very strongly by export-oriented companies. The net addition to net loan impairment and other credit risk provisions therefore turned out to be lower than we had expected.

Market risk management at HSBC Trinkaus passed its performance test in 2008 and 2009. The trend on the interest, equity and foreign exchange markets relevant for HSBC returned to relative normality in 2010, even though there are still further tensions in particular in the banking system. In trading with derivative equity products, we were able to expand our market share with almost the same volumes by quoting reliable prices for warrants and certificates at all times. The trading books for controlling throughout the Bank benefited mainly from credit spreads narrowing and low overnight money rates. The trend in 2010 has again confirmed that our value-at-risk model, into which we integrated credit spreads risks more strongly in the year under report, is calibrated conservatively.

Risk management – organisational structure

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

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

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

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

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

We are already preparing ourselves actively in particular for the new requirements relating to liquidity risk. With the capital increase concluded in July, we took account of the higher capital requirements in future, thus opening up additional scope for growth for our client business.

Strategic risk

By strategic risk we mean possible changes in the market environment and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. Strategic risk results primarily 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 substantial significance.

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

We are confident that HSBC Trinkaus' strategic position in Germany will not deteriorate, although several competitors in the German banking market have used government rescue packages to strengthen their capital base. The risk premiums for counterparty risk have increased in the market in general and are at present allowing more risk-adequate pricing of banking services than before, although this trend is already starting to wane again.

We have made no substantial progress with the further modernisation of our IT architecture since 2008 as capacities were tied up for the implementation of the flat-rate withholding tax and the requirements of additional regulatory controls. This gave rise to a backlog of demand which is being worked off systematically. The adjustment to new technologies and to the changed environment will require the use of significant personnel and financial resources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further significant increase in costs for the Bank.

The Bank is preparing itself for comprehensive new regulatory controls as a consequence of the financial market crisis. We doubt whether the slogan already repeated many times will be implemented that not more, but more effective regulation is required. The transfer of tasks stipulated by the government to the banks, such as money laundering control and tax collection, will lead to a permanent increase in regulatory costs. We are extremely concerned about this as it will lead to a substantial increase in fixed costs for the Bank irrespective of its earnings opportunities. In addition, the income statement will be burdened by the bank tax for the first time in 2011. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that the trend towards greater regulatory control has also been brought about by several banks acting irresponsibly. An increase in equity committed per transaction is foreseeable. In addition, the new liquidity provisions will tend to make refinancing more expensive. The structural and lasting decline in the return on equity at the same time will have a fundamental effect on all banks. HSBC Trinkaus is already actively preparing for the coming changes.

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

On a positive note, the Bank's strategic orientation has proven itself in the crisis and we are confident that we will be able to gain market shares thanks to our consistent client orientation.

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.

An authority ruling passed by the Management Board, which differentiates according to size and credit standing, regulates the authorisation process for loan commitments. The credit risk strategy coordinated with the Credit Committee of the Supervisory Board provides a framework for decisions in this area. It is examined and adjusted to the current requirements on a regular basis.

The Bank uses a ten-stage rating system to classify the credit quality of its clients in the private banking business. The ten-stage internal ratings for high net worth private clients are based exclusively on a qualitative credit assessment by the analyst. However, the lending business in this client segment is of minor importance and is carried out on a collateralised basis as a rule.

A 23-stage rating system is used to classify the credit quality of our corporate and institutional clients in the lending business. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. These systems are constantly being improved in detail. The internal rating, the expert knowledge of the analysts and – where available – the collateral provided form the basis for the loan decision.

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

The rating systems for large international corporations, banks and financial service providers were adopted by the Bank from the HSBC Group after an internal inspection of their suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for the internationally oriented portfolios. All HSBC rating systems also include a qualitative evaluation of the company and its economic environment which is drawn up by the responsible customer service officer in Germany in collaboration with 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 net loan impairment and other credit risk provisions for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. Net loan impairment and other credit risk provisions fully cover the shortfall calculated in this way.

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

Credit risk monitoring is conducted with the help 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, doubtful or problematic debts, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

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

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

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

The adherence to country limits is monitored on a daily basis with the help of IR programmes. They also take risk transfers to or from other countries into consideration.

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

b) Maximum default risk

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

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

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

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

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Loans and advances	**4,492.5**	**19.9**	**5,116.9**	**22.6**
to banks	1,402.9	6.2	2,429.4	10.7
to customers	3,089.6	13.7	2,687.5	11.9
Trading assets	**9,737.9**	**43.1**	**9,551.4**	**42.2**
Bonds and other fixed-income securities	4,590.7	20.3	4,839.7	21.4
Equities and other non-fixed-income securities	1,004.4	4.4	832.4	3.7
Tradable receivables	2,334.8	10.3	1,917.2	8.5
OTC derivatives	1,439.5	6.4	1,542.9	6.8
Reverse repos/securities lending	72.3	0.3	72.6	0.3
Cash deposits	296.2	1.3	346.6	1.5
Financial assets	**3,305.9**	**14.6**	**3,126.1**	**13.8**
Bonds and other fixed-income securities	2,776.3	12.3	2,567.4	11.3
Equities	24.3	0.1	29.8	0.1
Investment certificates	100.1	0.4	145.3	0.6
Promissory note loans	293.6	1.3	277.3	1.2
Investments	111.6	0.5	106.3	0.5
Contingent liabilities	**1,305.4**	**5.8**	**1,569.2**	**6.9**
Loan commitments	**3,751.9**	**16.6**	**3,290.2**	**14.5**
Total	**22,593.6**	**100.0**	**22,653.8**	**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 off-setting 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. Standard loan-to-value ratios for various financial guarantees are predetermined for the valuation, from which the person responsible can deviate from if necessary by making decisions in individual cases (e.g. to avoid cluster risks). 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 accepted only in exceptional cases. A valuation is carried out only if we receive account statements regularly and promptly from the third-party bank. Our aim is always that the financial guarantees are transferred to us.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract and the credit standing/rating of the guarantor. In contrast, physical collateral (assigned receivables and rights and transfers of title to 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 carrying out the valuation, the legal status of the collateral agreement and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location, 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, an individual valuation mark-down is determined for each collateral provided.

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 the normal lending framework of 50 % or 60 % 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, if necessary allowing for upper limits (to avoid cluster risks), 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 to the credit line in the system or the value of the collateral falls below the minimum value kept in the system, the line system reports that the credit line has been exceeded.

d) Information on credit quality

Loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2010				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	1,402.9	3,001.3	1,299.0	3,741.7	9,444.9
Overdue, but not impaired	0.0	2.9	0.1	0.0	3.0
Individually impaired*	0.0	85.4	6.3	10.2	101.9
Total	1,402.9	3,089.6	1,305.4	3,751.9	9,549.8

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

* Including the setting-up of credit risk provisions

Trading assets and financial assets (exclusively bonds)

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

in €m	31.12.2010			31.12.2009		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	2,136.7	1,209.0	3,345.7	1,959.7	1,064.9	3,024.6
AA+ to AA–	1,854.3	1,182.0	3,036.3	1,823.8	910.6	2,734.4
A+ to A–	403.3	193.4	596.7	734.5	320.6	1,055.1
BBB+ to BBB–	29.2	142.1	171.3	41.8	146.6	188.4
Lower than BBB–	14.8	26.0	40.8	1.8	18.4	20.2
No rating	152.4	23.8	176.2	278.1	106.3	384.4
Total	4,590.7	2,776.3	7,367.0	4,839.7	2,567.4	7,407.1

OTC derivatives

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

		31.12.2010		31.12.2009	
		in €m	in %	in €m	in %
OECD	Banks	1,077.8	74.8	1,130.0	73.5
	Financial institutions	135.1	9.4	228.4	14.8
	Other	222.5	15.5	179.1	11.6
Non-OECD	Banks	3.8	0.3	0.7	0.1
	Financial institutions	0.0	0.0	0.1	0.0
	Other	0.3	0.0	0.1	0.0
Total		1,439.5	100.0	1,538.4	100.0

e) Information on exposures which are neither overdue nor impaired

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure (see section Counterparty risk (a) Organisation of the credit processes). Allowing for risk-reducing elements, such as collateral, the loan exposures can be mapped onto 7 credit categories. Credit categories 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	31.12.2010				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1–2	1,327.3	971.5	608.2	1,404.5	4,311.5
Credit categories 3–4	75.6	1,946.9	683.4	2,335.8	5,041.7
Credit category 5	0.0	82.9	7.4	1.4	91.7
Total	1,402.9	3,001.3	1,299.0	3,741.7	9,444.9

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

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

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

The Bank's loans and advances which have not been impaired although overdue amounted to € 2.9 million in the year under report (2009: € 0.6 million) and are exclusively to customers. € 2.4 million (2009: € 0.1 million) is the result of the purchase of credit-insured foreign accounts receivable outside the European Union. The fair value of the collateral stood at € 0.5 million in the year under report (2009: € 0.1 million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full.

There are also overdue, but not impaired claims resulting from excess interest of € 0.5 million (2009: € 0.5 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 (2009: € 0.5 million).

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

HSBC Trinkaus sets up a net loan impairment provision as soon as there are objective, substantial indications suggesting the reduction in value of a financial asset. Such indications include the following: substantial payment difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as the substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, then we correct the probable recoverable sum. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by the person responsible. Problematic exposures, for which net loan impairment and other credit risk provisions have been set up, are classified as being in default in terms of their credit rating and are therefore automatically shown in the credit ratings 6 and 7. In order to allow for country risks, net loan impairment and other credit risk provisions can also be set up for exposures with higher credit ratings. These stood at € 2.4 million in the year under report (2009: € 3.0 million).

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

in €m	31.12.2010			31.12.2009		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before individually assessed impairments*						
Credit category 6	0.0	65.9	65.9	0.0	74.4	74.4
Credit category 7	0.0	19.5	19.5	0.0	6.0	6.0
Total	**0.0**	**85.4**	**85.4**	**0.0**	**80.4**	**80.4**
Individually assessed impairments*						
Credit category 6	0.0	23.5	23.5	0.0	25.2	25.2
Credit category 7	0.0	14.7	14.7	0.0	4.3	4.3
Total	**0.0**	**38.2**	**38.2**	**0.0**	**29.5**	**29.5**
Book value after IAI*	**0.0**	**47.2**	**47.2**	**0.0**	**50.9**	**50.9**

* IAI Individually assessed impairments

Within the scope of credit risk provisions HSBC Trinkaus also makes credit provisions for individual contingent liabilities and loan commitments which amounted to € 2.1 million in the year under report (2009: € 3.2 million).

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 10.9 million (2009: € 13.4 million) for loans and advances and € 3.6 million (2009: € 3.6 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 34.8 million (2009: € 63.3 million) as of the balance sheet date.

h) Information on collateral received

For loans and advances which have been individually impaired, the Bank holds collateral and other credit improvements especially in the form of securities and land charges, the value of which totalled € 21.4 million (2009: € 26.9 million) in the year under report.

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

No collateral received and other credit improvements were realised and drawn on, respectively, in the 2010 financial year (2009: € 26.7 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 strongly by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region. Furthermore, there can also be a concentration of the credit risk if a disproportionately large share of the credit risk is concentrated on individual borrowers. The Bank therefore also monitors the concentration on individual addresses in order to achieve the greatest possible distribution of the risk in the lending business.

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

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Risk concentration by sector				
Banks and financial institutions	9,401.4	41.6	9,439.0	41.7
Companies and self-employed professionals	8,352.7	37.0	8,068.7	35.6
Public sector	4,456.6	19.7	4,797.2	21.2
Employed private individuals	382.9	1.7	348.9	1.5
Total	22,593.6	100.0	22,653.8	100.0

	31.12.2010		31.12.2009	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	14,806.3	65.6	15,483.2	68.3
Other EU (including Norway and Switzerland)	6,514.8	28.8	5,885.8	26.0
North America	616.1	2.7	650.2	2.9
Asia	449.0	2.0	472.4	2.1
South America	118.7	0.5	70.5	0.3
Africa	43.5	0.2	39.9	0.2
Rest of Europe	28.3	0.1	33.8	0.1
Oceania	16.9	0.1	18.0	0.1
Total	22,593.6	100.0	22,653.8	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 € 1,633.2 million (2009: € 2,674.0 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.

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

A central project group has coordinated the implementation of the Basel II requirements at HSBC Trinkaus from which the Credit Risk Control department has evolved. It acts as the counterparty risk monitoring unit and is responsible for the maintenance, monitoring and further development of the credit-risk measurement systems used at HSBC Trinkaus, in particular the Bank's own SME rating system.

(l) Credit portfolio management

The Credit Risk Control department is responsible for preparing the internal risk-sensitive assessments of the credit positions (economic RWA) as well as the analysis of the credit risks at the portfolio level. For this purpose the Bank employs a simplified portfolio model which uses the credit risk measurement systems established by the Bank within the scope of the IRBA report as input parameters. Parallel to this, the RiskFrontier portfolio model used at the HSBC level has been used for several months in order to monitor credit risk concentration. The results of the risk-sensitive analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

(m) Stress tests

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

Operational risk

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

HSBC Trinkaus has always attached major importance to the reduction of operational risk to a level which is acceptable from the point of view of the costs involved. The Operational Risks and Internal Controls 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 member of the Management Board responsible for risk controlling. The Committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank and the entire HSBC Trinkaus Group.

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

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

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

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

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

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

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

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

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

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

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

The efficiency of the control processes implemented and documented is examined and certified on a regular basis for all important controls based on a representative random sample in a multi-stage procedure independently of the specialist areas carrying out the controls.

Information risks are managed within the scope of the Business Information Risk Officer (BIRO) programme which is controlled by a central committee, the Group's Information Security Risk Committee. The Committee meets on a quarterly basis to discuss relevant issues, stipulate key points of emphasis and decide upon corresponding measures. The role of Chief Information Security Officer in the HSBC Trinkaus Group is taken on by the head of IT Security.

The specialist management of the BIRO programme is carried out by the Support Function Operational Risk and Internal Controls. So-called Business Information Risk Officers have been appointed in all business segments and at all subsidiaries. This guarantees that information risks are observed from an integral perspective and that alongside technological issues, comprehensive specialist, legal and conceptional issues are also taken into consideration.

One key issue in 2010 was the introduction of group-wide methodology for the risk-based classification of information. In addition, IT applications which are developed and operated outside the central Information Technology team were again inventoried and classified with respect to their risk profile. If necessary, corresponding further measures were implemented to limit the risks identified. Numerous staff training sessions and workshops were carried out as well as in-house publications released during the year under report in order to sensitise our employees even more to the adequate handling of confidential information. Significant progress was also made with regard to the use of modern encryption technologies in email communication with external third parties.

The observance of the HSBC Group's guidelines is guaranteed by the integration of the head of the BIRO programme into the corresponding activities of the HSBC Group.

Market risk

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

To measure market risks in our trading book under normal market conditions for many years we have been using a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model was expanded significantly in 2010 in terms of commodity and (credit) spread risks, the use of which for regulatory purposes was authorised by BaFin in August. It is still 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 corporate bonds in the model as they are of no importance for our proprietary trading.

The following are included as risk factors in particular:

- Cash stock prices and stock indices
- Spot exchange rates including gold prices
- Commodity prices (various types of oil, silver)
- Zero interest rates for typical maturities from swap curves
- Credit spreads for various categories such as Pfandbriefe, bonds issued by German federal states and bank bonds with further differentiations by credit standing and/or maturity.
- Equity and equity index option volatilities for typical maturities
- Foreign exchange option volatilities for typical maturities
- Volatilities of options on Bundesanleihen for typical maturities
- Cap/floor volatilities for typical maturities
- Swaption volatilities for typical maturities

Issuer-specific interest rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. They are also covered via the regulatory standard approach.

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	2010			
	31.12.	Average	Minimum	Maximum
Interest rate risk	2.6	2.4	1.6	3.2
Currency risk	0.3	0.4	0.1	1.2
Equity/index risk	1.8	3.8	1.2	7.9
Credit spread risk*	3.7	3.8	3.1	4.3
Commodities risk*	0.2	0.0	0.0	0.2
Total potential market risk in the trading book**	**4.9**	**8.1**	**4.9**	**10.9**

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

* have only been calculated since 17 September 2010; figures for the comparable period are therefore not available.
** includes credit spread and commodity risks.

Risks relating to interest rates (including general credit spread risks) and equities still represent the Bank's greatest market risks. The extreme market movements on individual days on account of the financial market crisis also dominated the values at risk in 2010 as a 500-day history is used to simulate the risks.

The more detailed diversification of the credit spread risks led to slightly higher values at risk.

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

For the purpose 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. As was already the case in 2009, no back-testing anomalies were found throughout the Bank in 2010. Given the major distortions on the financial markets in the meantime, this continues to suggest that the modelling employed is probably on the conservative side.

Outside the model we continue to employ a number of additional sensitivity, volume and maturity limits in order to avoid concentration risks and also account for those risks which cannot be entirely incorporated into the model. 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 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 Control on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the Asset and Liability Management Committee on the basis of their capacity to assume risk and are adjusted, if necessary, during the course of the year. Market Risk Control also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to HSBC.

The average market risk potential in the regulatory investment book (99 % confidence interval / 1-day holding period) came to € 7.2 million (2009: € 3.5 million). This figure includes the credit spread risks for the first time in the year under report. Without taking these risks into consideration the figure would come to € 3.4 million. Market risks in the Bank's investment book are limited to interest rate as well as equity and other price risks. They are determined outside the risk models and are controlled at executive management level.

Liquidity risk

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

We reduce this risk by maintaining high liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risks based on quantitative and qualitative criteria in our liquidity risk strategy, predetermining stringent standards as regards liquidity and funding ratios in order to remain solvent at all times, even in the event of extreme events. In order to detect liquidity risk early on, threshold values are defined for the various observation parameters which lead to escalation procedures if they are exceeded. These are specifically defined in our three-stage emergency liquidity plan which can be activated at short notice.

While operating liquidity management is carried out by money market trading, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk. ALCO's duties include monitoring liquidity and funding ratios as well as the regular adjustment of the liquidity risk strategy including the emergency liquidity plan and transfer pricing for liquidity within the Bank.

Our liquidity risk strategy envisages that the Bank can fulfil its payment obligations at any time without HSBC's support and that central bank liquidity is not to be used as a lasting source of financing. The constant raising of funds from institutional investors on the capital market (wholesale funding) is of no significance for our liquidity management. We therefore have no medium-term note or commercial paper programme and do not issue certificates of deposit.

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

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

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2010	2009
31.12.	2.13	1.79
Minimum	1.75	1.63
Maximum	2.63	2.08
Average	2.13	1.84
Reference value in accordance with section 2 LiqV	**1.00**	**1.00**

We brought the internal liquidity management procedures in line with the methods applicable for the HSBC Group worldwide to the greatest possible extent in 2010. Liquidity forecasts derived from six different stress scenarios are the central control instrument. The scenarios differ in terms of the various assumptions with respect to outflows of liquidity and changes in the value of securities which can be combined with institute-specific or market-wide results. In each scenario we forecast the cumulative change in the cumulative inflows and outflows from the commercial business across several maturity bands. In the institution-specific scenarios, the full deduction of the customer deposits not qualified as core deposits within three months and the drawing on uncalled loan commitments of up to 35 % in the same period is assumed. Resulting cash deficits have to be balanced out by the liquidation of the liquidity cushion of marketable assets.

The minimum amount of the cushion required for this in an institution-critical scenario therefore also secures the Bank's ability to pay at all times even given unexpected outflows of funds. The institution-critical scenario is based on an annual risk valuation by HSBC on the basis of internal and external factors and is supplemented by an in-house scenario which is meant to show the effect of a rating downgrade of up to three rating notches.

The cumulative net balance of the liquid funds after six months and after liquidation of the liquidity cushion in the institution-critical scenario is the most important internal liquidity ratio. It must be clearly positive.

Large parts of the liquidity cushion consist of public sector bonds, Pfandbriefe and other eligible assets which are not used otherwise as collateral and for which we carry out different valuation mark-downs depending on the scenario. Securities or cash collateral transferred to third parties for security or margin obligations is not included in the liquidity cushion. At of 31 December 2010 we had deposited most of these assets with a collateral value of € 4.34 billion at the Bundesbank (2009: € 4.85 billion) giving us potential access to central bank loans to this extent. We did not participate in any new ECB main refinancing transactions in 2010.

The advances/core funding ratio represents the most important funding ratio. Owing to a different method of calculation, this ratio is higher than the ratio of loans and advances to customers to customer deposits, which can be derived from the balance sheet. This ratio stood at 30.4 % (2009: 29.7 %) at the end of the year versus an advances/core funding ratio of 52.1 % (2009: 61.7 %).

We monitor the maturity matching of the financing structure based on regular liquidity outflow analysis in which the liquidity commitment is broken down into contractual and effective terms. The dependence on individual creditors is also measured based on concentration ratios for the 20 largest creditors. There was no material concentration with respect to assets and financing sources or in respect of foreign currencies.

We issue no funding tools which provide for accelerated repayment depending on the deterioration of credit quality or which can be settled by the delivery of treasury shares instead of in cash. Obligations to provide collateral in cash or in securities can arise unilaterally in connection with stock exchange transactions settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders. The individual transactions are usually subject to netting agreements. As of 31 December 2010 the Bank had received € 57.0 million (2009: € 74.4 million) and provided € 296.2 million (2009: € 346.6 million) in cash collateral under such collateral riders.

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	31.12.2010						
		Gross outflow (not discounted)					
	Book value	Σ	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.
Financial liabilities within the balance sheet:							
Deposits by banks	1,180.4	1,181.4	1,084.4	3.1	75.4	18.5	0.0
Customer accounts	10,148.0	10,158.6	8,782.4	779.2	345.5	96.6	154.9
Certificated liabilities	10.0	12.8	0.4	0.0	0.0	1.2	11.2
Trading liabilities (excluding derivatives*)	2,997.9	3,289.8	586.4	170.2	888.2	879.5	765.5
Derivatives in hedging relationships	5.7	5.6	0.3	–0.2	2.1	4.2	–0.8
Provisions	96.5	106.4	84.0	0.0	0.0	0.0	22.4
Other liabilities	214.1	215.3	57.5	29.2	99.0	22.3	7.3
Subordinated capital	378.4	616.4	16.5	0.1	0.0	72.7	527.1
Sub-total	15,031.0	15,586.3	10,611.9	981.6	1,410.2	1,095.0	1,487.6
Financial liabilities outside the balance sheet:							
Financial guarantees	842.3	842.3	842.3	0.0	0.0	0.0	0.0
Loan commitments	3,751.9	3,751.9	3,751.9	0.0	0.0	0.0	0.0
Total	**19,625.2**	**20,180.5**	**15,206.0**	**981.6**	**1,410.2**	**1,095.0**	**1,487.6**

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

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

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

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

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

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Loans and advances to banks	31.12.2010	1,199.2	191.2	12,5	0,0	0,0	0,0	1.402,9
	31.12.2009	2,012.7	361.0	55.7	0.0	0.0	0.0	2,429.4
Loans and advances to customers	31.12.2010	1,642.2	863.5	400.6	165.1	18.2	0.0	3,089.6
	31.12.2009	1,736.4	407.6	343.7	181.9	17.9	0.0	2,687.5
Trading assets* / **	31.12.2010	10,129.7	0.0	0.0	0.0	0.0	0.0	10,129.7
	31.12.2009	10,001.1	0.0	0.0	0.0	0.0	0.0	10,001.1
Financial assets	31.12.2010	291.3	32.7	609.5	1,267.7	868.6	236.1	3,305.9
	31.12.2009	1.1	17.5	219.7	1,766.7	816.1	305.0	3,126.1
Other assets	31.12.2010	0.4	0.0	9.7	0.0	0.0	193.6	203.7
	31.12.2009	12.6	0.0	15.5	0.0	0.0	166.7	194.8
Total	**31.12.2010**	**13,262.8**	**1,087.4**	**1,032.4**	**1,432.8**	**886.8**	**429.7**	**18,131.8**
	31.12.2009	**13,763.9**	**786.1**	**634.6**	**1,948.6**	**834.0**	**471.7**	**18,438.9**

in €m		< 1 mon.	1–3 mon.	3–12 mon.	12 mon.–4 y.	> 4 y.	No fixed term	Total
Deposits by banks	31.12.2010	1,084.1	3.1	75.1	18.1	0.0	0.0	1,180.4
	31.12.2009	2,639.9	9.7	30.7	13.2	4.1	0.0	2,697.6
Customer accounts	31.12.2010	8,781.8	778.3	344.4	95.0	148.5	0.0	10,148.0
	31.12.2009	7,898.4	595.8	312.7	95.1	160.1	0.0	9,062.1
Certificated liabilities	31.12.2010	0.0	0.0	0.0	0.0	10.0	0.0	10.0
	31.12.2009	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities* / **	31.12.2010	5,194.3	0.0	0.0	0.0	0.0	0.0	5,194.3
	31.12.2009	5,193.5	0.0	0.0	0.0	0.0	0.0	5,193.5
Provisions***	31.12.2010	83.7	0.0	0.0	0.0	12.8	0.0	96.5
	31.12.2009	140.1	0.0	0.0	0.0	12.1	0.0	152.2
Other liabilities	31.12.2010	214.1	0.0	0.0	0.0	0.0	0.0	214.1
	31.12.2009	23.1	34.1	20.8	10.4	6.9	0.0	95.3
Subordinated capital	31.12.2010	16.5	0.1	0.0	60.6	301.2	0.0	378.4
	31.12.2009	0.0	0.0	6.0	32.7	345.7	0.0	384.4
Total	**31.12.2010**	**15,374.5**	**781.5**	**419.5**	**173.7**	**472.5**	**0.0**	**17,221.7**
	31.12.2009	**15,895.0**	**639.6**	**370.2**	**151.4**	**538.9**	**0.0**	**17,595.1**

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

The ICS in the Accounting Process

General

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

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

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

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

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

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

Organisational structure

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

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

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

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

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

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

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the Internal Control System. Wolfgang Haupt, Düsseldorf, was Chairman of the Audit Committee until 31 December 2010. Further members at this point in time were Harald Hörauf, Eggstätt and Peter Boyles, Paris.

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

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

IT systems

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

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

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

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

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

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

General structure of the ICS

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

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

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

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

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

Specific components of the ICS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Staff

Number of employees and persons receiving Pensions

We had a total of 2,440 employees at the end of 2010, compared to 2,280 at the end of the previous year. This represents an increase of 7 %. At the end of 2010 we were paying retirement, widow's and orphan's pensions to 554 recipients, compared to 556 at the end of 2009.

Training activities

A total of 36 highly-motivated apprentices are currently working at the Bank towards professional qualifications in banking, office communication and IT. Two of the banking apprentices are attending a parallel part-time Bachelor of Arts study course in "Business Administration" at the Hochschule für Oekonomie & Management. In addition, five apprentices are working towards investment fund specialist qualifications at our subsidiary Internationale Kapitalanlagegesellschaft mbH and a further six towards professional office communication qualifications at HSBC Transaction Services GmbH. We are proud to report that a total of 24 trainees in the HSBC Trinkaus Group successfully completed their training in 2010 as well. Five apprentices passed their final exams with the grade of "very good". We will remain strongly committed to the qualified training of our employees.

Advanced training

We see the professional and social skills as well as the special commitment of our employees as a decisive competitive advantage. Thanks to consistent personnel development we are in the position to constantly offer our clients major expertise and high quality with respect to our advisory service. The individual advanced training measures we offer our employees are tailored to meet their respective requirements and are developed in advance based on detailed analysis. We work together with selected trainers who are familiar with the Bank's requirements and whose excellent qualifications guarantee the successful implementation as well as the needs-oriented preparation and fine-tuning of the measures. For example, we help our employees to advance by providing individual in-house product and subject-specific training for both client-related and various specialist areas of the Bank. We also offer them leadership and acquisition seminars, coaching as well as communication and presentation training. We pay particular attention to training, promoting and supporting our senior management members in their special management functions.

Within the scope of personnel development we promote Bachelor and Master occupational study courses as well as selected specialised training courses. In addition to the Chartered Financial Analyst (CFA) or Certified International Investment Analyst (CIIA) courses, Certified Compliance Professional or Certified Credit Analyst (CCrA) courses were also offered in the year under report, for example. Our broad range of advanced training activities is rounded off by PC and IT seminars and foreign language courses (also in preparation for secondments abroad).

Performance-related remuneration

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

Thanks

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

Shareholders and Shares

Capital

As at 31 December 2010 the Bank's issued share capital was € 75.4 million (2009: € 70.0 million) divided into 28.1 million (2009: 26.1 million) no-par value shares. 55.2 % of the share capital was listed on the Düsseldorf and Stuttgart stock exchanges. The capital increase carried out by HSBC Trinkaus & Burkhardt AG was successfully completed at the beginning of July. New shares were issued at ratio of 1 for 13, in other words a total of 2,007,693 shares, at a price of € 75.00 per share. Share capital accounts for € 5.4 million and the capital reserve for € 145.2 million.

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.

Within the scope of the capital increase, HSBC Holdings plc, London, increased its share and as of the balance sheet date indirectly held 80.4 % (2009: 78.6 %) of this share capital. Landesbank Baden-Württemberg in Stuttgart directly held a share of 18.9 % (2009: 20.3 %).

Share price and market value

During 2010 our share price fell 9.2 % to € 89.00. The lowest fixing price of the year was € 87.50 and the highest € 113.00. 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	17.64	317.52
31.12.1990	22,000,000	19.79	435.38
31.12.1995	23,500,000	30.58	718.63
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.75
31.12.2006	26,100,000	105.00	2,740.50
31.12.2007	26,100,000	114.00	2,975.40
31.12.2008	26,100,000	89.00	2,322.90
31.12.2009	26,100,000	98.00	2,557.80
31.12.2010	28,107,693	89.00	2,501.58

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

Dividends

For the 2010 financial year we propose paying a dividend of € 2.50 per share (2009: € 2.50 per share). With a dividend total of € 70.3 million (2009: € 65.3 million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2010.

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	(Note)	31.12.2010	31.12.2009	Change	
				in €m	in %
Cash reserve	(20)	336.1	177.0	159.1	89.9
Loans and advances to banks	(5, 21)	1,402.9	2,429.4	−1,026.5	−42.3
Loans and advances to customers	(5, 22)	3,089.6	2,687.5	402.1	15.0
Net loan impairment provision	(7, 23)	−49.1	−42.9	−6.2	14.5
Trading assets	(5, 24)	10,130.6	10,005.7	124.9	1.2
Financial assets	(5, 25)	3,305.9	3,126.1	179.8	5.8
Interests in associates	(26)	38.0	10.6	27.4	> 100.0
Property, plant and equipment	(10, 27)	83.1	83.3	−0.2	−0.2
Intangible assets	(11, 27)	38.9	44.1	−5.2	−11.8
Taxation recoverable	(15, 28)	4.3	13.0	−8.7	−66.9
Current		4.3	13.0	−8.7	−66.9
Deferred		0.0	0.0	0.0	0.0
Other assets	(29)	203.7	194.8	8.9	4.6
Total assets		**18,584.0**	**18,728.6**	**−144.6**	**−0.8**

Liabilities in €m	(Note)	31.12.2010	31.12.2009	Change	
				in €m	in %
Deposits by banks	(5, 32)	1,180.4	2,697.6	−1,517.2	−56.2
Customer accounts	(5, 33)	10,148.0	9,062.1	1,085.9	12.0
Certificated liabilities	(34)	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	5,200.1	5,196.7	3.4	0.1
Provisions	(14, 36)	96.5	152.2	−55.7	−36.6
Taxation	(15, 37)	66.7	67.7	−1.0	−1.5
Current		52.6	61.1	−8.5	−13.9
Deferred		14.1	6.6	7.5	> 100.0
Other liabilities	(38)	214.1	95.3	118.8	> 100.0
Subordinated capital	(39)	378.4	384.4	−6.0	−1.6
Shareholders' equity	(40)	1,289.7	1,062.5	227.2	21.4
Share capital		75.4	70.0	5.4	7.7
Capital reserve		354.0	216.9	137.1	63.2
Retained earnings		627.2	569.6	57.6	10.1
Valuation reserve for financial instruments		125.3	108.6	16.7	15.4
Valuation reserve for actuarial profits and losses		−29.8	−23.3	−6.5	27.9
Valuation reserve from currency conversion		−1.8	−0.2	−1.6	> 100.0
Consolidated profit available for distribution		139.4	120.9	18.5	15.3
Minority interests	(41)	0.1	0.1	0.0	0.0
Total equity and liabilities		**18,584.0**	**18,728.6**	**−144.6**	**−0.8**

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

Income statement in €m	(Note)	2010	2009	Change	
				€ m	in %
Interest income		198.5	235.1	–36.6	–15.6
Interest expense		69.8	91.8	–22.0	–24.0
Net interest income	(42)	128.7	143.3	–14.7	–10.2
Net loan impairment and other credit risk provisions	(7, 44)	7.7	22.4	–14.7	–65.6
Share of profit in associates	(43)	0.4	0.6	–0.2	–33.3
Fee income		683.9	575.1	108.8	18.9
Fee expenses		279.9	228.9	51.0	22.3
Net fee income	(45)	404.0	346.2	57.8	16.7
Net trading income	(46)	120.4	123.0	–2.6	–2.1
Administrative expenses	(47)	439.3	400.8	38.5	9.6
Income from financial assets	(48)	–0.6	–24.0	23.4	–97.5
Net other income	(49)	4.1	–2.2	6.3	>100.0
Pre-tax profit		**210.0**	**163.7**	**46.3**	**28.3**
Tax expenses	(50)	70.6	54.5	16.1	29.5
Net profit for the year		**139.4**	**109.2**	**30.2**	**27.7**
Group profit/loss attributable to minority interests		0.0	1.6	–1.6	–100.0
Group profit/loss attributable to HSBC Trinkaus shareholders		139.4	107.6	31.8	29.6

Reconciliation from Net Income to Comprehensive Income

in €m	2010	2009
Net profit for the year	139.4	109.2
Gains/losses not recognised in the income statement	8.6	62.1
of which from financial instruments	16.7	61.1
of which from actuarial results	–6.5	1.1
of which from currency conversion	–1.6	–0.1
Comprehensive income	**148.0**	**171.3**
Attributable to:		
Minority interests	0.0	1.6
HSBC Trinkaus shareholders	148.0	169.7

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

Earnings per share

	2010	2009
Net income after tax in €m	139.4	109.2
Minority interests in €m	0.0	1.6
Net profit after tax and minority interests in €m	139.4	107.6
Average number of shares in circulation in million	27.1	26.1
Earnings per share in €	**5.14**	**4.12**
Undiluted earnings per share in €	**5.14**	**4.12**

No subscription rights from the capital increase carried out in July 2010 were outstanding at the end of the 2010 financial year. There was therefore no calculable dilution effect.

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

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Valuation reserve for financial instruments	Valuation reserve for actuarial profits and losses	Valuation reserve from currency convesion	Consolidated profit available for distribution	Shareholders' equity	Minority interests	Total including minority interests
At 31.12.2008	70.0	218.5	543.8	47.5	−24.4	−0.1	99.7	955.0	16.5	971.5
Dividend distribution							−65.3	−65.3		−65.3
Retention from 2008 profit available for distribution			20.9				−20.9			
Addition from net profit for the year							107.6	107.6	1.6	109.2
Changes in the group of consolidated companies							−0.2	−0.2	−18.0	−18.2
Share-based payments		−1.6	4.9					3.3		3.3
Other changes				61.1	1.1	−0.1		62.1		62.1
At 31.12.2009	70.0	216.9	569.6	108.6	−23.3	−0.2	120.9	1,062.5	0.1	1,062.6
Dividend distribution							−65.3	−65.3		−65.3
Retention from 2009 profit available for distribution			55.6				−55.6			
Addition from net profit for the year							139.4	139.4		139.4
Changes on account of the capital increase	5.4	145.2						150.6		150.6
Share-based payments		−8.1	2.2					−5.9		−5.9
Other changes			−0.2	16.7	−6.5	−1.6		8.4		8.4
At 31.12.2010	75.4	354.0	627.2	125.3	−29.8	−1.8	139.4	1,289.7	0.1	1,289.8

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2010	2009
Net profit for the year	139.4	109.2
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	–32.8	88.1
Net profit from the sale of investments and property, plant and equipment	0.7	0.6
Other adjustments (net)	–63.7	–96.2
Sub-total	43.6	101.7
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	1,026.5	550.3
Loans and advances to customers	–404.7	1,394.4
Securities held for trading	–121.5	1,520.7
Other assets	–177.6	–900.8
Liabilities	–440.7	–2,563.0
Other liabilities	91.0	–21.8
Total adjustments	–27.0	–20.2
Interest receipts	196.7	232.9
Dividend receipts	2.3	2.2
Interest payments	–69.8	–91.8
Income taxes paid	–51.5	–32.7
Cash flow from operating activities	**94.3**	**192.1**
Proceeds from the sale of		
Financial assets	0.1	0.0
Property, plant and equipment	1.4	4.5
Payments for the acquisition of		
Financial assets	–0.3	–0.9
Property, plant and equipment	–15.8	–18.6
Cash flow from investing activities	**–14.6**	**–15.0**
Dividends paid to HSBC Trinkaus shareholders	–65.3	–65.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	–6.0	–74.3
Cash inflow from the capital increase	150.6	0.0
Cash flow from financing activities	**79.3**	**–139.6**

Cash and cash equivalents at beginning of period	**177.0**	**139.5**
Cash flow from operating activities	94.3	192.1
Cash flow from investing activities	–14.6	–15.0
Cash flow from financing activities	79.3	–139.6
Cash and cash equivalents at end of period	**336.0**	**177.0**

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Fundamental accounting policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2010 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration.

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

To enhance transparency, all figures have been reported in millions of euros. The figures have been rounded commercially, which may result in marginal deviations in the consolidated financial statements to hand within the scope of generating figures and calculation percentages.

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

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

At the end of 2010, HSBC Holdings plc had an indirect interest of 80.4 % (2009: 78.6 %) in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on accounting, valuation and consolidation methods

1 ▸ Scope of Consolidation

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

HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, which is headquartered in Düsseldorf, was established in the financial year under report as a joint venture with Société Financière et Mobilière, Paris and recognised as equity on the balance sheet for the first time.

Dr. Helfer Verwaltungsgebäude Luxemburg KG, Düsseldorf was merged with HSBC Trinkaus & Burkhardt AG, Düsseldorf and is therefore no longer included within the scope of consolidation.

International Transaction Services GmbH was renamed HSBC Transaction Services GmbH in the year under report.

In addition, we have fully consolidated two special funds and one closed-end real estate fund in accordance with SIC 12. A detailed list of the consolidated companies in addition to these funds can be found in Note 63.

2 ▸ Consolidation Principles

In accordance with IAS 27.24, the accounting policies were applied consistently throughout the Group.

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

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

3 ▸ Foreign Currency Translation

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

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

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

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

Translation recognised in the income statement had no significant impact on the 2010 financial year, as in the previous year. Translation differences without effect on the income statement amounted to € –1.8 million (2009: € –0.2 million) and relate to a closed-end real estate fund in Australia as well as to a subsidiary in Hong Kong (cf. Note 63).

4 ▸ Business Combinations

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

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

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

5 Financial Instruments

Recognition

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

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

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

Reporting

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

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

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

Measurement

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

(a) Financial assets or liabilities at fair value through profit or loss

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

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

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

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

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

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

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

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

In the event of a reduction in value due to counterparty or sovereign risk – impairments – (direct) write-downs to the lower fair 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 fair 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 fair 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
As in the previous year, the option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

6 ▸ Hedge Accounting

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, HSBC Trinkaus applied the provisions for the reporting of hedge relationships in accordance with IAS 39 (hedge accounting). The fair value of the fixed-income bonds (hedged item) depends on changes in the market interest rate (e.g. five-year rate) on the one hand and on liquidity and risk premiums for the issuer (so-called spreads) on the other. HSBC Trinkaus hedges against market interest rate-induced volatility (designated portion of the hedged item) by concluding interest rate swaps with other banks (hedging instrument), which largely compensates for the fluctuations in the fair value of the bonds. This hedging of fair value fluctuations (so-called fair value hedges), the interest rate-induced volatility plus the interest rate swaps of the fixed-income bonds are recognized in the income statement in accordance with IAS 39. The spread-related fair value fluctuations of the bonds are not hedged (unhedged portion of the hedged item). These are transferred to retained earnings in line with the subsequent measurement of available-for-sale securities, without effect on the income statement.

The reporting of hedging relationships in the balance sheet in accordance with IFRS is inked to a series of requirements that are largely related to the documentation of the hedging relationships and effectiveness of the hedging measures. The following data in particular must be documented at the time of entering into a hedging relationship (inception of a hedge): the identification of the hedge and the underlying transaction, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

HSBC Trinkaus uses a linear regression model to assess the effectiveness of the hedge transaction. The model examines the linear correlation between the cumulative changes in value in the underlying transaction and the cumulative changes in value of the hedge transaction. The so-called coefficient of determination (R-square) provides information about the direction of the correlation through the quality of the regression and the steepness of the regression straight line (slope).

The proof of effectiveness requires higher expected effectiveness for a hedging relationship in the future (prospective effectiveness) on the one hand. Proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness) on the other. Sufficient effectiveness within the scope of the prospective test requires an R-square of greater than 0.9 and a slope of between −0.9 and −1.1. An R-square of greater than 0.8 and a slope of between −0.8 and −1.2 is adequate for the retrospective effectiveness test.

7 ▸ Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions on the one hand as net loan impairment provision on the assets side and on the other as credit risks on the liabilities side. The item net loan impairment 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 23 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, write-downs/provisions are created on a portfolio basis: provided there is no substantial objective evidence of impairment of individual assets or of individual contingent losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). A general impairment/provision will then be calculated on the basis of the respective default probabilities and economic indicators.

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

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

As associated enterprises and joint ventures, all companies where HSBC Trinkaus & Burkhardt AG has a significant Influence – either directly or indirectly – or has joint control with the other company, are carried in the balance sheet. A significant influence or joint control is assumed for voting interests of between 20 % and 50 %. On the one hand, we reported the associated company SINO AG, Düsseldorf, under the share of profit in associates. Owing to SINO AG's different financial year, the figures published for the previous quarter are used in the accounting process. On the other hand, HSBC Global Asset Management (Switzerland) AG, Zurich, which was established as a joint venture with HSBC Global Asset Management (France), Paris and HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf, which was newly established as a joint venture with Société Financière et Mobilière, Paris, are taken into consideration here. Shares in associated companies and joint ventures are consolidated at equity.

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 prospective useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Scheduled amortisation is on a straight-line basis over the expected useful life of the asset and is based on the following useful lives throughout the Group:

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

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

11 ▸ Intangible Assets

Items disclosed under intangible assets include standard software. In-house development work carried out within the scope of software projects is capitalised in accordance with IAS 38. Intangible assets are valued at purchase or production cost less regular depreciation on a straight-line basis over the expected useful life of the asset of three to ten years. In addition to regular depreciation, impairment tests are also carried out to value fixed assets (cf. Note 10).

Intangible assets also include the goodwill resulting from the acquisition of HSBC Transaction Services GmbH (formerly referred to as ITS Transaction Services GmbH). The goodwill is not subject to any scheduled amortisation. An impairment test is carried out instead at least once a year, in accordance with IAS 36. The enterprise value is calculated using a discounted cash flow method, where the future cash flows are estimated and discounted by an interest rate that adequately reflects the risks involved.

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 IFRS requirements, offsets them against the liability items arising from the issuance of bonds.

As at the end of 2010, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 52,376 treasury shares were bought at an average price of € 98.27 (2009: € 87.37) and sold at an average price of € 90.63 (2009: € 87.47). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.16 % (2009: 0.28 %) of subscribed capital.

14 ▸ Provisions

Provisions for pensions, for credit risks 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. The expected income from the plan assets is offset against the expected pension expenses in the income statement. Actuarial profits and losses from the performance of the plan assets and the pensions are reported under shareholders' equity with no effect on profits after the deduction of deferred taxes.

Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure. We report provisions for credit risks under net loan impairment provision.

15 ▸ Taxation Recoverable and Taxation

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

Deferred tax expenses are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations used for the taxation of the Group company in question. Deferred taxation recoverable or deferred taxation must be taken into consideration regardless of when realignment of the valuations occurs. The deferred taxation is calculated according to the tax rates which, to the best of our current knowledge and based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable and deferred taxation will be adjusted accordingly (cf. Note 50).

16 ▸ Share-Based Payments

Group employees have the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (one, three and five years) and allows staff to save up to the equivalent of GBP 250 per month. 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 (service costs) derived from this – apportioned to the respective blocking period (vesting period) – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (so-called acceleration of vesting). If an existing bonus programme is modified, a distinction must be made as to whether the fair value of the approval at the time of the modification exceeds or falls short of the original fair value.

If the modified fair value exceeds the original fair value of the approval, the excess amount must be recognised in the income statement, in addition to the previous service costs over the vesting period. If the fair value is lower, the previous service costs remain unchanged; in other words, the modification is ignored.

In addition, the performance-related remuneration components for employees and the Management Board are, over a certain volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The share component will be paid in different tranches within or at the end of the vesting period and is generally subject to their continued service for the Bank. It is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; personnel expenses are spread over the vesting period. The resulting transfer obligation is re-valued every month, whereby the valuation result is recognised directly in the capital reserves.

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 customers, 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

The other standards or interpretations, which were applied for the first time in 2010, had no material impact.

On 12 November 2009, the IASB published the Standard IFRS 9, Financial Instruments. The aim of the standard is to completely revise the accounting of financial instruments in a three-part project and thus replace the standard IAS 39 applicable to date. IFRS 9 will regulate the classification and measurement of financial assets and have a substantial Influence on HSBC Trinkaus' accounting. On 28 October 2010, the IASB published supplements to IFRS 9 on accounting for financial liabilities. The IASB thus concludes the classification and measurement phase for replacing these regulations in IAS 39. The adoption of the standard is mandatory for financial years starting on or after 1 January 2013. Early adoption is permitted for 2009 year-end financial statements. HSBC Trinkaus has not been able to make use of this option as the standard is still awaiting EU endorsement.

Other standards and interpretations not yet compulsory for 2010 will not have any material effect on the Bank.

19 ▸ Material Events Occurring After the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2010	31.12.2009
Cash in hand	3.3	3.6
Balances held with central banks	332.8	173.4
Total	**336.1**	**177.0**

Balances held with central banks are held mainly with the Deutsche Bundesbank and continue to be almost exclusively in euros.

The balances are managed on a daily basis within the scope of liquidity management observing the minimum reserve requirements.

21 Loans and Advances to Banks

in €m	31.12.2010	31.12.2009
Current accounts	328.3	361.2
Money market transactions	955.8	1,923.8
of which overnight money	78.6	109.8
of which term deposits	877.2	1,814.0
Other loans and advances	118.8	144.4
Total	**1,402.9**	**2,429.4**
of which to domestic banks	398.4	1,442.0
of which to foreign banks	1,004.5	987.4

Loans and advances to banks also include our deposits within the HSBC Group. The reduction corresponds to the decline in the volume of deposits to banks and is largely attributable to the reporting date.

22 ▸ Loans and Advances to Customers

in €m	31.12.2010	31.12.2009
Current accounts	1,024.2	980.9
Money market transactions	631.9	620.9
of which overnight money	67.2	79.3
of which term deposits	564.7	541.6
Loan accounts	1,412.4	1,063.4
Other loans and advances	21.1	22.3
Total	**3,089.6**	**2,687.5**
of which domestic customers	1,811.1	1,933.0
of which foreign customers	1,278.5	754.5

The increase in the number of loan accounts is primarily attributable to the higher volume of export financings within the scope of forfeiting. The factoring business, which was offered for the first time in 2010 as part of our growth strategy, also contributed to the result. The increase in the volume held on the current accounts is largely attributable to the reporting date.

23 ▸ Net Loan Impairment and Other Credit Risk Provisions

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

in €m	31.12.2010	31.12.2009
Net loan impairment provision	49.1	42.9
Provisions for credit risks	5.7	6.8
Net loan impairment and other credit risk provisions	**54.8**	**49.7**

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. The rise is a result of the increase in individually assessed impairments, whereas collectively assessed impairments fell during the year under report. This reflects the largely positive economic trend.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2010	2009	2010	2009	2010	2009
As at 01.01.	**29.5**	**15.0**	**13.4**	**6.4**	**42.9**	**21.4**
Reversals	3.4	3.5	2.5	0.0	5.9	3.5
Utilisation	3.1	0.9	0.0	0.0	3.1	0.9
Additions	13.8	18.9	0.0	7.0	13.8	25.9
Direct write-offs	1.4	0.0	0.0	0.0	1.4	0.0
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.	**38.2**	**29.5**	**10.9**	**13.4**	**49.1**	**42.9**

Provisions for credit risks developed as follows:

	Provisions				Total	
	Individually assessed		Collectively assessed			
in €m	2010	2009	2010	2009	2010	2009
As at 01.01.	**3.2**	**5.2**	**3.6**	**1.6**	**6.8**	**6.8**
Reversals	1.1	2.0	0.0	0.0	1.1	2.0
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.0	2.0	0.0	2.0
Currency translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.	**2.1**	**3.2**	**3.6**	**3.6**	**5.7**	**6.8**

24 ▸ Trading Assets

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	4,590.7	4,839.7
of which:		
public-sector issuers	2,334.0	2,294.5
other issuers	2,256.7	2,545.2
of which:		
listed	4,441.7	4,404.4
unlisted	149.0	435.3
Equities and other non-fixed-income securities	1,004.4	832.4
of which:		
listed	1,003.9	832.3
unlisted	0.5	0.1
Tradable receivables	2,334.8	1,917.2
Positive market value of derivatives	1,828.7	1,992.6
of which:		
OTC derivatives	1,436.0	1,538.3
exchange-traded derivatives	392.7	454.3
Reverse repos	72.3	72.3
Securities lending	0.0	0.3
Security in the derivatives business	296.2	346.6
Derivatives in hedging relationships	0.9	0.2
Derivatives held in the banking book	2.6	4.4
Total	**10,130.6**	**10,005.7**

Trading assets remained largely unchanged. Tradable receivables are recognised mainly as promissory note loans and registered bonds. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 35).

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

25 ▸ Financial Assets

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

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	2,776.3	2,567.4
of which:		
public-sector issuers	714.6	660.5
other issuers	2,061.7	1,906.9
of which:		
listed	2,727.5	2,477.2
unlisted	48.8	90.2
Equities	24.3	29.8
Investment certificates	100.1	145.3
Promissory note loans	293.6	277.3
Investments	111.6	106.3
Total	**3,305.9**	**3,126.1**

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:

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	78.3	64.0
Equities	9.3	5.7
Investment certificates	11.0	6.7
Promissory note loans	19.3	18.8
Investments	39.4	40.4
Total	**157.3**	**135.6**

26 ▸ Share of Profit in Associates

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

in €m	2010	2009
Book value as at 01.01.	**10.6**	**10.1**
Additions	27.5	0.3
Share of results of financial year	0.4	0.6
Elimination of interim result	0.0	0.0
Dividend distribution	–0.5	–0.4
Disposals	0.0	0.0
Book value as at 31.12.	**38.0**	**10.6**

HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf, was established during the year under report (cf. Note 9) and was consolidated at equity for the first time.

The market value of the retained SINO AG shares amounted to € 3.9 million as at the balance sheet date (2009: € 6.3 million). All in all, the assets and liabilities of the companies consolidated at equity amount to € 283.7 million (2009: € 10.2 million) and € 1.9 million (2009: € 7.0 million), respectively, on pre-tax profit of € 3.9 million (2009: € 4.0 million).

27 Investment Overview

in €m	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2010	92.0	70.4	162.4	99.3
Increases	0.0	10.4	10.4	5.4
Disposals	0.0	5.4	5.4	0.6
Acquisition costs as at 31.12.2010	92.0	75.4	167.4	104.1
Depreciation as at 01.01.2010	36.2	42.9	79.1	55.2
Scheduled depreciation	1.2	8.9	10.1	10.2
Non-scheduled depreciation	−0.5	0.0	−0.5	0.0
Depreciation of reversals	0.0	4.4	4.4	0.2
Depreciation as at 31.12.2010	36.9	47.4	84.3	65.2
Carrying amount as at 31.12.2010	**55.1**	**28.0**	**83.1**	**38.9**
Carrying amount as at 31.12.2009	**55.8**	**27.5**	**83.3**	**44.1**

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

28 Taxation Recoverable

in €m	31.12.2010	31.12.2009
Current taxation recoverable	4.3	13.0
Deferred taxation recoverable	0.0	0.0
Total	**4.3**	**13.0**

Current taxation recoverable relates predominately to Luxembourg taxes.

29 ▸ Other Assets

As in 2009, other assets of € 203.7 million (2009: € 194.8 million) include one building with a book value totalling € 158.0 million (2009: € 128.8 million), which is marketed within the framework of a closed-end real estate fund. No interest on borrowing was activated in the current year (2009: € 4.8 million). Additionally, this item predominately includes excess cover from our CTAs of € 10.5 million (2009: € 18.7 million) and other taxes of € 1.2 million (2009: € 11.9 million).

30 ▸ Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2010	31.12.2009
Bonds and other fixed-income securities	137.5	126.9
Profit-participation certificates	6.7	6.7
Total	144.2	133.6

31 ▸ Repurchase Agreements and Securities Lending

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

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

in €m	31.12.2010		31.12.2009	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities lending transactions	66.0	4.1	38.0	11.4
Total	66.0	4.1	38.0	11.4

The following table provides an overview of the securities received:

in €m	31.12.2010		31.12.2009	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	88.9	72.3	88.9	72.3
of which may be sold or pledged	88.9	0.0	88.9	0.0
of which are already sold or pledged	0.0	0.0	0.0	0.0
Securities lending transactions	136.5	0.0	69.5	0.3
of which may be sold or pledged	114.2	0.0	60.9	0.0
of which are already sold or pledged	22.3	0.0	8.6	0.0
Total	**225.4**	**72.3**	**158.4**	**72.6**

The overview includes the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables.

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

32 Deposits by Banks

in €m	31.12.2010	31.12.2009
Current accounts	394.4	563.5
Money market transactions	583.5	1,961.3
of which overnight money	3.0	11.9
of which term deposits	580.5	1,949.4
Other liabilities	202.5	172.8
Total	**1,180.4**	**2,697.6**
of which domestic banks	352.7	741.5
of which foreign banks	827.7	1,956.1

As at 31 December 2010, deposits by banks secured by charges on real property amounted to € 71.1 million (2009: € 65.6 million). In addition to the balances on our accounts held with our correspondent banks, deposits by banks comprise mainly deposits from other banks of the HSBC Group. The sharp decline was attributable to the reporting date.

33 ▸ Customer Accounts

in €m	31.12.2010	31.12.2009
Current accounts	6,488.3	5,686.8
Money market transactions	3,332.0	3,040.4
of which overnight money	439.0	346.4
of which term deposits	2,893.0	2,694.0
Savings deposits	43.0	33.6
Other liabilities	284.7	301.3
Total	**10,148.0**	**9,062.1**
of which domestic customers	7,167.0	6,193.1
of which foreign customers	2,981.0	2,869.0

Customer accounts continue to represent our main refinancing source and are almost at the levels seen in the record year of 2007. The positive increase in overnight and term deposits is largely attributable to the reporting date. The high level of customer deposits can be seen as the clear commitment of our customers to our solid business policy.

34 ▸ Certificated Liabilities

Certificated liabilities relate to bond issues in the amount of € 10.0 million (2009: € 10.0 million).

35 ▸ Trading Liabilities

in €m	31.12.2010	31.12.2009
Negative market value of derivatives	2,196.4	2,452.9
Discount certificates, promissory note loans, bonds and warrants	2,852.7	2,637.1
Delivery obligations arising from securities sold short	84.1	17.7
Securities lending	4.1	11.4
Security in the derivatives business	57.0	74.4
Derivatives in hedging relationships	5.8	3.2
Total	**5,200.1**	**5,196.7**

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

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

36 Provisions

in €m	As at 01.01.2010	Utilisa-tion	Reversals	Additions/ com-pounding	Trans-fers	Actuarial result	At 31.12.2010
Provisions for pensions and similar obligations	12.1	6.2	0.0	5.4	–8.1	9.6	12.8
Provisions related to human resources	58.6	42.8	0.7	1.7	–14.8	0.0	2.0
Provisions for credit risks	6.8	0.0	1.1	0.0	0.0	0.0	5.7
Provisions for other taxes	2.7	0.0	0.0	0.0	0.0	0.0	2.7
Other provisions	72.0	19.9	9.7	32.1	–1.2	0.0	73.3
Provisions	152.2	68.9	11.5	39.2	–24.1	9.6	96.5

Provisions for credit risks include provisions for impending losses in connection with sureties, acceptances and credit commitments. They are a 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, turnover and capital from the previous years.

Other provisions include above all, provisions for contingent liabilities, especially in connection with risks in the real estate business, with interest rate risks from tax audits, as well as from IT agreements and goodwill provisions.

With uncertainties eliminated, previous provisions of € 14.8 million related to human resources and € 1.2 million on other provisions were transferred to other liabilities.

Provisions for pensions and similar obligations

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

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

Alongside the general pension and benefit plans for all employees, individual agreements were concluded by way of exception. Furthermore, there are two endowments that bear 6.0 % and 7.5 % interest, respectively.

In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost € 4.8 million in the year under report (2009: € 4.8 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 %	31.12.2010	31.12.2009
Long-term base rate of interest	5.0	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 falling interest rates on fixed-rate bonds, the base interest rate was lowered to 5.0 % in the year under report (2009: 5.5 %).

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2011.

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

Development of pension obligations

in €m	2010	2009
Pension obligations as at 01.01.	**190.8**	**180.0**
Service costs	6.8	5.0
Interest expense	10.5	10.2
Pensions paid	– 11.4	– 10.6
Transfers and others	0.0	0.0
Change in actuarial gains and losses	9.3	6.2
Pension obligations as at 31.12.	**206.0**	**190.8**

Within the scope of the calculation of pension obligations, parameters that are naturally characterised by uncertainties are estimated on a regular basis. A decrease in the long-term base interest rate to 4.75 % would increase the pension obligations to € 213.0 million. On the other hand, if the long-term base interest rate were to increase to 5.25 %, pension obligations would fall to € 199.6 million.

Breakdown of pension obligations

in €m	2010	2009	2008	2007	2006
Non-funded pension obligations	**9.9**	**8.1**	**6.7**	**4.3**	**4.8**
Funded pension obligations					
Present value of pension obligations	196.1	182.7	173.3	172.6	192.4
Fair value of plan assets	203.8	197.4	185.3	201.7	196.6
Balance	**–7.7**	**– 14.7**	**– 12.0**	**–29.1**	**–4.2**
of which plan shortfall	2.8	4.0	4.5	2.8	5.6
of which plan excess	10.5	18.7	16.5	31.9	9.8
Total pension obligations	**12.8**	**12.1**	**11.2**	**7.1**	**10.4**
of which actuarial gains and losses					
from plan assets	– 16.8	– 16.6	–24.4	– 1.1	0.4
from plan obligations	–26.9	– 17.6	– 11.4	– 16.2	–39.0

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 € 29.8 million after taxes (2009: € 23.3 million). The actuarial losses in the year under report were created largely on the obligations side and are attributable to falling interest rates.

Development of the fair value of plan assets

in €m	2010	2009
Fair value of plan assets as of 1.1.	197.4	185.3
Additions/withdrawals	–5.3	–6.8
Reversals	0.0	0.0
Estimated income from plan assets	11.9	11.1
Change in actuarial gains and losses	–0.2	7.8
Fair value of plan assets as of 13.12.	203.8	197.4

The actual profits from plan assets in the year under report amounted to € 11.7 million (2009: € 18.9 million). A reduction to 5.75 % in the planned return on plan assets would have increased the actuarial result by € 0.5 million. An increase in the planned return to 6.25 % would have reduced the actuarial result by € 0.5 million.

Breakdown of the fair value of plan assets

in €m	2010	2009
Bonds and other fixed-income securities	89.3	114.3
Equities	22.1	25.7
Discount/index certificates	32.7	20.7
Re-insurance claims from life insurance	16.2	15.0
Investment funds	26.9	6.7
Closed-end real estate funds	4.0	4.0
Other	12.6	11.0
Fair value of plan assets as of 31.12.	203.8	197.4

37 ▶ Taxation

in €m	31.12.2010	31.12.2009
Current taxation	52.6	61.1
Deferred taxation	14.1	6.6
Total	**66.7**	**67.7**

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

Deferred taxation is our future tax burdens or relief, formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 50).

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

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

in €m	31.12.2010	31.12.2009	Change
	As shown in the balance sheet		
Trading portfolio*	16.6	6.0	10.6
Share-based payments	5.0	7.2	–2.2
Intangible assets	2.2	2.1	0.1
Loss carried forward	0.0	0.0	0.0
Derivatives held in the banking book	–1.9	–0.7	–1.2
Buildings	–0.9	–1.1	0.2
Net loan impairment and other credit risk provisions	–1.4	–2.0	0.6
Pensions	–3.1	–2.4	–0.7
Financial assets	–8.6	–8.3	–0.3
Provisions	–11.1	–10.0	–1.1
Recognised in the income statement	**–3.2**	**–9.2**	**6.0**
Financial Instruments	32.1	26.8	5.3
Foreign Currency Translation	–0.9	–0.1	–0.8
Pensions	–13.9	–10.9	–3.0
With effect on equity	**17.3**	**15.8**	**1.5**
Deferred taxes	**14.1**	**6.6**	**7.5**
of which taxation recoverable	0.0	0.0	0.0
of which taxation	14.1	6.6	7.5

*Balance from measurement differences in all trading activities

38 ▸ Other Liabilities

in €m	31.12.2010	31.12.2009
Liabilities from other taxes	26.2	10.6
Deferred income	9.0	22.6
Accrued interest on		
Subordinated liabilities	6.9	7.1
Participatory capital	4.9	4.9
Other	167.1	50.1
Total	214.1	95.3

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with clients. Other liabilities include predominately trade payables and liabilities from performance-related remuneration.

39 ▸ Subordinated Capital

in €m	31.12.2010	31.12.2009
Subordinated liabilities (promissory note loans, bonds)	278.4	284.4
Participatory capital	100.0	100.0
Total	378.4	384.4

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 million. As in the previous year, no use was made of this facility in the last financial year.

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

Subordinated capital of € 363.4 million (2009: € 365.8 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 2010 financial year, interest payable amounts to € 13.1 million (2009: € 14.1 million) on subordinated liabilities and to € 4.9 million (2009: € 6.1 million) on participatory capital.

Interest and repayment of subordinated liabilities

Interest rates	Nominal amount (€m) 31.12.2010	Nominal amount (€m) 31.12.2009
5 % or lower	100.2	100.2
Over 5 % up to 8 %	153.2	159.2
Fixed rates	253.4	259.4
Variable rates	25.0	25.0
Total	**278.4**	**284.4**

Repayment	Nominal amount (€m) 31.12.2010	Nominal amount (€m) 31.12.2009
Up to 1 year	25.0	6.0
Over 1 year up to 5 years	55.2	80.2
Over 5 years	198.2	198.2
Total	**278.4**	**284.4**

40 Shareholders' Equity

HSBC Trinkaus & Burkhardt AG successfully concluded a capital increase at the start of July 2010, whereby a total of 2,007,693 new shares were issued at a ratio of 1 for 13 at a price of € 75.00 per share. Subscribed capital accounts for € 5.4 million so that subscribed capital as at 31 December 2010 amounted to € 75.4 million (2009: 70.0 million, divided into 28,107,693 (2009: 26,100,000) no-par value shares.

The Management Board is authorised to increase the share capital by up to € 29.6 million on or before 31 May 2013, with the Supervisory Board's approval, through one or more issues of new bearer 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 bearer shares. The conditional capital increase may only be carried out to the extent that the holders of convertible and option rights make use of the conversion and option rights under the convertible bonds or bonds cum warrants or profit participations rights to be issued on or before 31 May 2013 (conditional capital).

Valuation reserve for financial instruments

The change in the valuation reserve for financial instruments is as follows:

in €m	2010	2009
Net valuation reserve as at 01.01.	**108.6**	**47.5**
Disposals (gross)	0.7	2.7
Market fluctuations (gross)	20.9	54.3
Impairments (gross)	0.4	23.9
Deferred taxes	–5.3	–19.8
Net valuation reserve as at 31.12.	**125.3**	**108.6**

Shareholders' equity pursuant to German Banking Act (KWG)

A bank's regulatory capital is divided into the three tiers-core capital (Tier I capital), supplementary capital (Tier II capital) and Tier III capital. Core capital comprises primarily share capital plus the capital reserve and retained earnings, less 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 cover 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 covered only by core and supplementary capital, while market risk can also be covered by Tier III capital. 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 (core capital ratio). The requirements of adequate capitalisation must be met by the banks, on a daily basis at the close of trading. The banking supervisory authority is reported to on a quarterly basis. The regulatory ratios following confirmation of the balance sheet are as follows:

in €m	2010	2009
Core capital (Tier I)		
Consolidated core capital as disclosed on the balance sheet	1,093	858
Intangible assets	–35	–41
Total core capital	**1,058**	**817**
Supplementary capital (Tier II)		
Subordinated liabilities	261	263
Participatory capital	100	100
Unrealised gains on listed securities	36	47
Consolidation	–15	–15
Total supplementary capital	**382**	**395**
Adjustment items	–43	–52
Regulatory capital excluding Tier III capital	**1,397**	**1,160**
Available Tier III capital	**0**	**0**
Total regulatory capital	**1,397**	**1,160**
Risk-weighted assets	5,862	5,925
Market risk equivalent	1,063	800
Operational risk	1,188	1,125
Risk position	**8,113**	**7,850**
Tier I ratio* in %	**13.0**	**10.4**
Capital ratio in %	**17.2**	**14.8**

* before taking half the adjustment item into account

The Bank's core capital consists exclusively of share capital plus the capital reserve and retained earnings and therefore already meets the future regulatory requirements of hard core capital.

HSBC Trinkaus' far above-average capital resources enable us to continue along the planned growth path within the scope of our successful business model.

The availability of adequate shareholders' equity is fundamental to the management of the Bank, in order to adequately cover the risks inherent in banking. We have deliberately exceeded the regulatory requirements quite considerably in order to be prepared to achieve organic growth and deal with fluctuations in the course of business, whilst creating scope for appropriate strategic acquisitions. All in all, we want to maintain a minimum total capital ratio of 10.5 %. Please refer also to the comments on the Bank's financial position in the Group Management Report.

An analysis of the economic capital requirement complements our management of shareholders' equity, which is focused on the regulatory requirements. Although the introduction of the Basel II Accord considerably improved the risk measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and the available risk cushions in our business, in conjunction with the issue of the Bank's risk-bearing capacity even in extreme stress scenarios. The theoretical methods for quantifying risk have developed to varying degrees and the statistical database features different qualities, so that an aggregation of all risks is not quite without its problems. We continued to refine the calculation of economic capital requirements in 2010.

Ultimately it can be said that the Bank's risk-bearing capacity is unchanged and its capitalisation adequate.

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

41 ▸ Minority Interests

As in the previous year, minority interests comprise investments in one closed-end real estate fund that is fully consolidated in the consolidated financial statements.

Notes to the Consolidated Income Statement

42 ▸ Net Interest Income

in €m	2010	2009
Interest income	**198.5**	**235.1**
From loans and advances to banks	19.6	36.4
Money market transactions	15.7	30.9
Other interest-bearing receivables	3.7	5.4
Reverse repos	0.2	0.1
From loans and advances to customers	75.3	95.9
Money market transactions	14.5	21.6
Other interest-bearing receivables	60.8	74.3
From financial assets	103.6	102.8
Interest income	100.4	99.4
Dividend income	1.8	2.2
Income from subsidiaries	1.4	1.2
Interest expense	**69.8**	**91.8**
From deposits by banks	16.3	17.2
Money market transactions	8.9	12.3
Other interest-bearing deposits	7.4	4.9
From customers accounts	32.5	53.9
Money market transactions	7.4	23.3
Other interest-bearing deposits	25.1	30.6
From securitised liabilities	0.4	0.4
From subordinated capital	17.9	20.2
Other	2.7	0.1
Net interest income	**128.7**	**143.3**

Persistently low interest rates led to a decline in interest income and interest expense in the year under report. Overall, net interest income amounted to € 128.7 million, which is down 10.2 % on the figure of € 143.3 million achieved in 2009. The margins in the deposit-taking business in the year under report were virtually unchanged at a low level, while higher margins than in the previous year could be achieved in the lending business, especially in the first half-year. In contrast, average volumes fell in both the lending as well as in the deposit-taking business, even though loans and advances to customers and customer accounts were up on the previous year.

Furthermore, the financing of a closed-end real estate fund that was recognised in full in interest expense, contributed to the decline. The corresponding financing costs were for the most part still capitalised the year before.

We continued to invest a considerable portion of our liquidity in bonds that are eligible for use in Eurosystem credit operations. Income from financial assets improved slightly over the previous year.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 2.0 million (2009: 4.5 million).

43 ▸ Share of Profit in Associates

The share of profit in associates resulted mainly from our interest in SINO AG. HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf was consolidated at equity for the first time as a joint venture (cf. Note 1) in the year under report.

44 ▸ Net Loan Impairment and Other Credit Risk Provisions

in €m	2010	2009
Additions	13.8	27.9
Reversals	7.0	5.5
Direct write-offs	1.4	0.0
Recoveries on loans and advances previously written off	0.5	0.0
Total	**7.7**	**22.4**

At € 7.7 million, net loan impairment in the year under report was down significantly on the previous year's figure of € 22.4 million. This is largely due to the improvement in the economic situation that benefits our export-oriented customers in particular.

Notwithstanding the positive overall economic development, we had to allocate € 13.8 million to individually assessed impairments, while reversing impairments in the amount of € 4.5 million at the same time. This was offset by a net reversal of collectively assessed impairments of € 2.5 million compared with net allocation of € 9.0 million in the previous year, thus reflecting the improvement in the economic environment in our loan book.

Our conservative stance is unchanged and we continue to apply stringent standards of provisioning in relation to the assessment of default risks.

45 ▸ Net Fee Income

in €m	2010	2009
Securities transactions	257.3	236.7
Foreign exchange transactions and derivatives	58.4	51.6
Investment Banking	34.2	3.1
Foreign business	13.6	12.5
Lending	11.5	8.8
Issuing and structuring business	11.0	13.7
Payments	6.6	6.6
Alternative investments*	5.2	5.5
Other fee-based business	6.2	7.7
Total	**404.0**	**346.2**

* The alternative investments division offers alternative investment products to our customers; these include hedge funds, private equity or infrastructure investments that are based on a sustained and broadly diversified basis.

The fee-based business, which accounted for 60.5 % of operating profit (2009: 55.9 %), remains a crucial factor to the Bank's success. With net fee income of € 404.0 million (2009: € 346.2 million), the year under report proved to be a record year in the history of HSBC Trinkaus. Compared with the previous year, we succeeded in significantly increasing net fee income by 16.7 % to € 57.8 million.

This is largely down to two developments in particular: on the one hand, we significantly increased our securities business, which is the pivotal determinant of our success in the fee-based business. We benefited here in particular from higher demand for asset management products, while transaction-led proceeds were hit by lower volumes. On the other hand, we achieved an extraordinarily good result in Investment Banking, by supporting several capital adjustment measures for large exchange-listed companies. We substantially improved the result in our international and lending business thanks to our success in expanding our market share in Corporate Banking. This is also reflected in the initial successes of our accelerated growth strategy that is focused in particular on expanding the Corporate Banking business. As expected, the exceptional result achieved last year in the issuing and structuring business was not replicated in full, since banks and corporates in particular utilised the capital markets to a much lesser extent for raising external capital in the year under report.

Trust activities performed by the Group in its own name, but for the account of third parties, are not recognised in the balance sheet. As in the previous year, net fee income includes practically no income or expense from trust activities.

46 ▸ Net Trading Income

in €m	2010	2009
Equities and equity/index derivatives	68.1	63.9
Bonds and interest rate derivatives	47.9	46.2
Foreign exchange	8.6	7.8
Derivatives held in the banking book	–4.2	5.1
Total	120.4	123.0

At € 120.4 million, net trading income is down slightly on last year’s result (2009: € 123.0 million). This development is due largely to the measurement of our derivatives in the banking book. This component that is not attributable to operative business contributed to net trading income with measurement losses in the amount of € 4.2 million, compared with measurement gains of € 5.1 million the year before.

We succeeded in improving the results in all operative trading units compared with the previous year.

Trading in equity and equity/index derivatives, our strongest contributor in the trading division, rose by € 4.2 million to € 68.1 million (2009: € 63.9 million). This development is largely attributable to transactions in retail products. We achieved a particularly favourable result in trading with knockout products and in the business with discount and bonus certificates in the year under report in a still competitive market.

At € 47.9 million, the results achieved on trading bonds and interest rate derivatives are slightly higher than last year’s figure of € 46.2 million. The trend in the first three months of falling credit spreads and the associated measurement gains did not continue in the last three months. Rather, spread-widening on the back of the debt levels of some EU countries, amongst other things, eroded the measurement gains. The generally good result generated in money market trading was based on our excellent liquidity situation.

At € 8.6 million, the foreign exchange business is higher than last year’s figure of € 7.8 million.

47 ▸ Administrative Expenses

in €m	2010	2009
Staff expenses	259.1	237.9
Wages and salaries	222.6	205.4
Social security costs	26.0	21.9
Expenses for retirement pensions and other employee benefits	10.5	10.6
Other administrative expenses	159.8	137.4
Depreciation of property, plant and equipment and of intangible assets	20.4	25.5
Total	439.3	400.8

Administrative expenses climbed in the year under report, by € 38.5 million or 9.6 %, to € 439.3 million (2009: € 400.8 million). This increase is attributable to the rise in staff numbers associated with our growth strategy, which creates the basis for securing additional market share and for expanding our revenue base. Furthermore, the performance-related remuneration components rose on the back of the significantly better results vis-à-vis the previous year.

The rise in other administrative expenses is due amongst other things to expenses incurred in improving the workflows. We accepted these expenses knowingly in order to secure the long-term success of our growth strategy. Other administrative expenses include € 31.8 million (2009: €24.3 million) in expenses arising from rental and lease payments. This reflects the higher staff levels as well as the new premises in Luxembourg that were used throughout the year. Rates in the HSBC Group also increased in the year under report, since we availed ourselves increasingly of the services offered by HSBC Group.

Lower depreciation is due to the impairments recognised in the previous year on goodwill and on software components no longer required.

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

in €m	2010	2009
Expenses for defined benefit plans	5.4	4.1
of which current service costs	6.8	5.0
of which interest expense	10.5	10.2
of which estimated income from the plan assets	–11.9	–11.1
Expenses for defined contribution plans	4.8	4.8
Other expenses for retirement provisions	0.3	1.7
Total	10.5	10.6

48 ▸ Income from Financial Assets

A loss of € 0.6 million from financial assets was reported in the year under report compared with a loss of € 24.0 million the year before, largely owing to the reduction in the necessary impairments. Overall, we recognised impairment in the amount of € 0.4 million (2009: € 23.9 million). This figure reflects the fact that distortions on capital markets have eased as well as the adjustments made to our portfolio.

On balance, the sale of financial assets measured at fair value generated a loss of € 3.0 million (2009: € –1.0 million). The Bank has very limited exposure to the Eurozone periphery states and the price performance of existing holdings is shown in the fair value measurement for financial assets. We also reported profits of € 2.3 million (2009: € –1.7 million) in conjunction with the share-based payments made to our staff in accordance with IFRS 2.

The following table highlights the composition of the realisation gains from financial assets measured at fair value from the performance of previous years and of the year under report:

in €m	2010	2009
Income statement		
Net gain/loss from disposal	–0.7	–2.7
Tax expenses	1.3	0.9
Net realisation gain in the income statement	**0.6**	**–1.8**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	0.7	2.7
of which volatility in the year under report	2.3	–1.7
of which volatility in previous years	–1.6	4.4
Performance of corresponding tax expenses		
Change from disposals (derecognition)	–1.3	–0.9
of which volatility in the year under report	1.5	0.5
of which volatility in previous years	–2.8	–1.4

The following table shows how the impairments or write-ups on financial assets are attributable to the performance of previous years and of the year of impairment/write-back:

in €m	2010	2009
Income statement		
Impairments/write-ups on financial instruments	–0.4	–23.9
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	0.4	23.9
of which volatility in the year under report	–0.9	17.0
of which volatility in previous years	1.3	6.9
Performance of corresponding tax expenses		
Changes from impairments/write-ups	–0.1	–4.1
of which volatility in the year under report	0.3	–2.9
of which volatility in previous years	–0.4	–1.2

49 ▸ Net Other Income

in €m	2010	2009
Other operating income	26.6	20.0
Other operating expenses	17.0	8.4
Other operating income	**9.6**	**11.6**
Other income	0.7	2.4
Other expenses	6.2	16.2
Other net income	**–5.5**	**–13.8**
Net other income	**4.1**	**–2.2**

Other operating income essentially includes € 11.5 million (2009: € 3.8 million) in rental income and € 8.2 million (2009: € 4.6 million) from the reversal of other provisions. Other operating expenses include for the most part additions of € 9.9 million (2009: € 4.8 million) to provisions and expenses of € 2.6 million incurred in renting (2009: € 0.5 million).

Other operating income/expenses also takes into account the hedge result that amounted to € 0.2 million (2009: € –0.1 million) in the year under report (cf. Notes 6 and 59).

Other income was mainly from a revaluation of € 0.5 million (2009: impairments of € 0.3 million) on land and property. This revaluation is recognised on the basis of the annual valuation carried out by an external appraiser on the respective reporting date and reflects the change in the economic valuation of a property. For the purposes of segment reporting, impairments and revaluations on land and property are allocated to the "Central Divisions/Consolidation" business segment (cf. Note 54).

Other expenses of € 6.2 million (2009: € 16.2 million) include for the most part provisions of € 6.0 million (2009: € 15.6 million) for the business with closed-end real estate funds.

50 ▸ Tax Expenses

in €m	2010	2009
Current taxes	64.6	67.0
of which off-period	–0.5	0.2
Deferred taxes from change in limited valuation differences	6.8	–12.5
Deferred taxes from changes to the tax rates	–0.8	0.0
Total	70.6	54.5

As in the previous year, the effective corporation tax in Germany is 15.8 %. Taking trade income tax into account, the combined tax rate is 31.4 % (2009: approximately 32.0 %). The reduction in the combined tax rate from 32.0 % to 31.4 % is due to the reduction in the trade tax rates of assessment of individual local authorities in 2010. The rate also forms the bases for calculating deferred taxes. The slight increase in tax rates in Luxembourg had no material impact.

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

in €m	2010	2009
Pre-tax profit	210.0	163.7
Tax rate (%)	31.4	32.0
Tax expenses derived from pre-tax profit	65.9	52.4
Tax rate differential on income proportions subject to taxation outside of Germany	–0.5	–1.6
Effect from unused losses carried forward	0.0	0.5
Taxes for previous years	–0.5	0.2
Non-deductible expenses from share-based payments	1.4	1.6
Corporation tax modification	2.0	0.0
Trade tax modification	2.0	0.9
Miscellaneous	0.3	0.5
Reported taxation	70.6	54.5

51 ▸ Calculation of Operating Profit

in €m	2010	2009	Change	
			in €m	in %
Interest income	198.5	235.1	–36.6	–15.6
Interest expense	69.8	91.8	–22.0	–24.0
Net interest income	128.7	143.3	–14.6	–10.2
Net loan impairment and other credit risk provisions	7.7	22.4	–14.7	–65.6
Net interest income after net loan impairment and other credit risk provisions	121.0	120.9	0.1	0.1
Share of profit in associates	0.4	0.6	–0.2	–33.3
Fee income	683.9	575.1	108.8	18.9
Fee expenses	279.9	228.9	51.0	22.3
Net fee income	404.0	346.2	57.8	16.7
Operating trading income	124.6	117.9	6.7	5.7
Staff expenses	259.1	237.9	21.2	8.9
Other administrative expenses	180.2	162.9	17.3	10.6
Administrative expenses	439.3	400.8	38.5	9.6
Other operating income	9.6	11.6	–2.0	–17.2
Operating profit	**220.3**	**196.4**	**23.9**	**12.2**
Income from financial assets	–0.6	–24.0	23.4	–97.5
Income from derivatives in the bank book	–4.2	5.1	–9.3	> 100
Other net income	–5.5	–13.8	8.3	–60.1
Pre-tax profit	**210.0**	**163.7**	**46.3**	**28.3**
Tax expenses	70.6	54.5	16.1	29.5
Net profit for the year	**139.4**	**109.2**	**30.2**	**27.7**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (cf. Note 49). Operating trading income comprises net trading income from our trading desks but does not include results from derivatives held in the banking book. A breakdown of operating profit by business segment is shown in Segment Reporting (cf. Note 54).

52 ▸ Income Statement by Measurement Category

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

Measurement category 31.12.2010 in €m	Loans and Receivales	Other financial instru-ments	Held-for-trading	Derivatives in hedging relation-ships	Availa-ble-for-sale	Other financial commit-ments	Other	Total
Net interest income								
Interest income	92.3	2.6			103.6			198.5
Interest expense						−67.1	−2.7	−69.8
Net fee income								
Fee income	11.7		5.9				666.3	683.9
Fee expenses	−0.2		−1.8				−277.9	−279.9
Net trading income			120.4					120.4
Income from financial as-sets					−0.2			−0.2
Net other income				−1.7	1.9		3.9	4.1
Impairments								
Net loan impairment and other credit risk provi-sions	−8.8						1.1	−7.7
Income from financial as-sets					−0.4			−0.4
Total	**95.0**	**2.6**	**124.5**	**−1.7**	**104.9**	**−67.1**	**390.7**	**648.9**

Measurement category 31.12.2009 in €m	Loans and Receiva-bles	Other fi-nancial instru-ments	Held-for-trading	Derivatives in hedging relation-ships	Availa-ble-for-sale	Other financial commit-ments	Other	Total
Net interest income								
Interest income	128.9	3.4			102.8			235.1
Interest expense						−91.8		−91.8
Net fee income								
Fee income	9.1						566.0	575.1
Fee expenses	−0.3						−228.6	−228.9
Net trading income			123.0					123.0
Income from financial assets					15.5			15.5
Net other income				−0.7	0.6		−2.1	−2.2
Impairments								
Net loan impairment and other credit risk provisions	−18.6						−3.8	−22.4
Income from financial assets					−39.5			−39.5
Total	**119.1**	**3.4**	**123.0**	**−0.7**	**79.4**	**−91.8**	**331.5**	**563.9**

53 ▸ Notes to the Cash Flow Statement

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

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

The summary item "Other adjustments (net)" in the cash flow statement essentially comprises net changes to deferred taxes, the change in taxation recoverable as well as tax expenses paid, interest and dividends received minus interest paid.

Cash and cash equivalents
As in the previous year, the cash and cash equivalents of € 336.0 million (2009: € 177.0 million) correspond to the cash reserve balance sheet item, which comprise 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 € 139.4 million (2009: € 109.2 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 € 43.6 million (2009: € 101.7 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 € 15.8 million (2009: € 18.6 million) in the 2010 financial year. The sale of property, plant and equipment realised € 1.4 million (2009: € 4.5 million) for the Group. In the 2010 financial year, the sale and purchase of financial investments realised a net outgoing payment of € 0.2 million (2009: € 0.9 million receipt of payment).

Cash flow from financing activities
Cash flow from financing activities includes the dividend of € 65.3 million for the 2010 financial year (2009: € 65.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in a payment of € 6.0 million (2009: € 74.3 million). The cash inflow from the capital increase conducted in the summer of 2010 amounted to € 150.6 million.

54 ▸ Customer Groups

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

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

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

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

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

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

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

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

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

Segment reporting by business division for 2010 and 2009 is as follows:

in €m		Private Banking	Corpo-rate Banking	Institu-tional clients	Global Markets	Central Divi-sions	Eco-nomic Group result	Consoli-dation / Recon-ciliation	Total
Net interest income	2010	11.0	50.7	2.5	3.8	60.7	128.7	0.0	128.7
	2009	14.4	44.8	1.9	10.6	71.6	143.3	0.0	143.3
Net loan impairment and other credit risk provisions	2010	1.1	10.6	1.5	0.1	0.1	13.4	5.7	7.7
	2009	1.8	8.7	1.3	0.2	0.7	12.7	9.7	22.4
Net interest income after net loan impairment and other credit risk provisions	2010	9.9	40.1	1.0	3.7	60.6	115.3	5.7	121.0
	2009	12.6	36.1	0.6	10.4	70.9	130.6	9.7	120.9
Share of profit in associates	2010	0.0	0.0	0.0	0.0	0.4	0.4	0.0	0.4
	2009	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
Net fee income	2010	94.4	107.4	173.8	5.3	23.1	404.0	0.0	404.0
	2009	83.1	92.4	146.1	2.5	22.1	346.2	0.0	346.2
Operating trading income	2010	0.0	0.3	5.5	93.5	25.9	124.6	0.0	124.6
	2009	0.0	0.2	11.0	105.4	1.7	117.9	0.0	117.9
Income after loan impairment and other credit risk provisions	2010	104.3	147.2	180.3	102.5	110.0	644.3	5.7	650.1
	2009	95.7	128.3	157.7	118.3	95.3	595.3	9.7	585.6
Administrative expenses	2010	74.6	85.6	108.0	52.7	118.4	439.3	0.0	439.3
	2009	64.4	74.3	90.6	52.6	118.9	400.8	0.0	400.8
Of which depreciation and amortisation	2010	1.7	1.2	0.9	0.5	16.1	20.4	0.0	20.4
	2009	1.5	1.1	0.6	0.6	21.7	25.5	0.0	25.5
Other operating income	2010	0.0	0.0	0.0	0.0	9.6	9.6	0.0	9.6
	2009	2.2	0.0	0.0	0.0	13.8	11.6	0.0	11.6
Operating profit	**2010**	**29.7**	**61.6**	**72.3**	**49.8**	**1.2**	**214.6**	**5.7**	**220.3**
	2009	**29.1**	**54.0**	**67.1**	**65.7**	**9.8**	**206.1**	**9.7**	**196.4**
Income from financial as-sets	2010	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.6
	2009	0.0	0.0	0.0	0.0	24.0	24.0	0.0	24.0
Income from derivatives in the bank book	2010	0.0	0.0	0.0	0.0	4.2	4.2	0.0	4.2
	2009	0.0	0.0	0.0	0.0	5.1	5.1	0.0	5.1
Other net income	2010	0.0	0.0	0.0	0.0	5.5	5.5	0.0	5.5
	2009	0.0	0.0	0.0	0.0	13.8	13.8	0.0	13.8
Pre-tax profit	**2010**	**29.7**	**61.6**	**72.3**	**49.8**	**9.1**	**204.3**	**5.7**	**210.0**
	2009	**29.1**	**54.0**	**67.1**	**65.7**	**42.5**	**173.4**	**9.7**	**163.7**
Taxation	2010	9.2	19.3	22.8	15.5	3.8	70.6	0.0	70.6
	2009	9.1	17.3	21.5	21.0	14.4	54.5	0.0	54.5
Net profit for the year	**2010**	**20.5**	**42.3**	**49.5**	**34.3**	**12.9**	**133.7**	**5.7**	**139.4**
	2009	**20.0**	**36.7**	**45.6**	**44.7**	**28.1**	**118.9**	**9.7**	**109.2**
Change versus previous year in %		**2.5**	**15.3**	**8.6**	**23.3**	**54.1**	**12.4**	**>100.0**	**27.7**

The higher contributions made by all client segments to the Bank's operating profit in the 2010 financial year once again confirmed the success of the Bank's balanced business model. The result reflects the strengths of HSBC Trinkaus' client business, against the background of the continuing uncertainties on the financial markets that resulted from the high level of debt of individual Eurozone member states. However, owing to the low interest rate environment in the Eurozone, Trading was the only division that was unable to repeat the extraordinary high result of the previous year. The measurement and realisation results of the Bank's financial assets as well as the net loan impairment provision reported in the Central Divisions / Consolidations developed more favourably compared with the previous year as the crisis affecting financial markets eased.

The Corporate Banking segment was particularly successful and recorded the highest percentage increase in results among all of the Bank's operating segments. The market-driven decline in revenue in the commission-based fixed income business was more than compensated for by high net fee income in international business and by participating in capital increases in a lead role. Higher revenues in Asset Management and an increase in interest income in the lending business due to margin trends contributed to the good result achieved in Corporate Banking.

The Institutional Clients segment generated the highest contribution to results in the Bank. High revenues in Investment Banking and the equity business from the placement of capital increases were particularly instrumental in driving up results once again. They also offset the slight decline in net fee income and net trading income in the fixed income business. The sale of structured investments benefited most from the growing diversity of products brought about by the intensive cooperation with HSBC Group.

Private Banking benefited from the positive market trend on the stock exchanges. Following a difficult year in 2009, higher revenues from the asset management and securities business contributed to the increase in results for the bank as a whole.

On the other hand, Global Markets failed to repeat the exceptional result of the previous year, which was largely attributable to the very high revenues generated by Treasury due to the favourable environment on the money markets. The improvement in results in the largely customer-driven equity and derivatives trading could not offset the lower treasury results generated in money market and foreign exchange trading.

The rise in administrative expenses in the Bank's four market segments is due to the expansion drive embarked on to enhance the Bank's competitive standing, which also explains the 7 % increase in staff numbers to 2,440 in the Group as a whole. Regulatory costs are rising continuously in the Central Divisions / Consolidation segment on the one hand, while higher costs were allocated to the other segments on the other.

		Private Banking	Corporate Banking	Institutional Clients	Global Markets	Central Divisions	Total	Adjustments	Values as at balance sheet date
Cost/income ratio in %	2010	70.8	54.2	59.4	51.4	0.0	66.9	0.0	66.9
	2009	67.6	54.2	57.0	44.4	0.0	68.3	0.0	68.3
Assets* in €m	2010	535.0	1,660.0	2,268.0	5,710.7	9,657.6	19,831.3	1,247.3	18,584.0
	2009	613.0	2,018.0	2,083.5	8,059.3	7,988.7	20,762.5	2,033,9	18,728.6
Liabilities* in €m	2010	3,259.0	3,773.0	1,515.1	2,920.6	5,467.0	16,934.7	396.2	16,538.5
	2009	3,410.0	4,256.0	1,657.3	2,949.4	7,394.4	19,667.1	2,700.7	16,966.4
Items for mandatory inclusion* in €m	2010	518.5	2,821.8	922.7	785.9	2,782.5	7,831.4	281.6	8,113.0
	2009	501.4	2,850.8	740.5	693.2	3,344.3	8,130.2	280.2	7,850.0
Attributable shareholders' equity* in €m	2010	146.9	377.2	187.3	173.6	187.0	1,072.0	217.7	1,289.7
	2009	140.1	328.1	159.2	155.5	167.1	950.0	112.5	1,062.5
Employees	2010	239	217	246	99	1,639	2,440	0	2,440
	2009	229	205	223	91	1,532	2,280	0	2,280
Return on equity before taxes (%)	2010	20.2	16.3	38.6	28.7	0.0	19.6	0.0	0.0
	2009	20.8	16.5	42.1	42.3	0.0	17.1	0.0	0.0

* Annual average

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

The cost/income ratio is a measure of the segments' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment and other credit risk provisions. This ratio has increased slightly year-on-year in the client segments, due to the necessary start-up costs incurred within the scope of the growth strategy the Bank has embarked on. Although costs remained constant, the cost/income ratio deteriorated in Global Markets, due to the significant decline in revenues owing to the special situation in Treasury the year before. The cost/income ratio within the Group improved to 66.9 %. 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 greatest increase in items for mandatory inclusion was reported in the Institutional Clients and Global Markets segments, while risk assets in Corporate Banking and Private Clients remained virtually constant. The higher allocation of capital committed to all segments is largely due to the € 150 million capital increase that was conducted in summer 2010, to pave the way for permanent growth opportunities within the scope of the Bank's business model

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:

in €m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2010	193.9	15.0	1.1	210.0
	2009	135.4	26.4	1.9	163.7

Long-term segment assets amounted to € 280.0 million (2009: € 256.2 million) during the year under report, with Germany accounting for € 271.7 million (2009: € 247.8 million) thereof and the Luxembourg region for € 8.3 million (2009: € 8.4 million)

55 ▸ Measurement Classes

The following table provides an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.10 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		336.1			336.1
Loans and advances to banks*	1,402.9				1,402.9
Loans and advances to customers *	3,040.5				3,040.5
Trading assets			10,130.6		10,130.6
Financial assets		51.7		3,254.2	3,305.9
Other financial instruments	14.1	4.3			18.4
Total financial instruments	**4,457.5**	**392.1**	**10,130.6**	**3,254.2**	**18,234.4**
Other assets not included under IAS 39					349.6
Total assets					**18,584.0**

Liabilities as at 31.12.10 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held for trading	
Deposits by banks	1,180.4		1,180.4
Customer accounts**	10,148.0		10,148.0
Certificated liabilities	10.0		10.0
Trading liabilities		5,200.1	5,200.1
Subordinated capital	378.4		378.4
Other financial instruments	102.2		102.2
Total financial instruments	**11,819.0**	**5,200.1**	**17,019.1**
Other liabilities not included under IAS 39			275.1
Shareholders' equity			1,289.7
Minority interests			0.1
Total assets	**378.4**		**18,584.0**

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

Assets as at 31.12.2009 in €m					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and Receivables	Other financial assets	Held for trading	Available-for-sale	
Cash reserve		177.0			177.0
Loans and advances to banks*	2,429.4				2,429.4
Loans and advances to customers*	2,644.6				2,644.6
Trading assets			10,005.7		10,005.7
Financial assets		53.1		3,073.0	3,126.1
Other financial instruments	14.9	2.3			17.2
Total financial instruments	**5,088.9**	**232.4**	**10,005.7**	**3,073.0**	**18,400.0**
Other assets not included under IAS 39					328.6
Total assets					**18,728.6**

Liabilities as at 31.12.2009 in €m			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held for trading	
Deposits by banks	2,697.6		2,697.6
Customer accounts**	9,062.1		9,062.1
Certificated liabilities	10.0		10.0
Trading liabilities		5,196.7	5,196.7
Subordinated capital	384.4		384.4
Other financial instruments	55.0		55.0
Total financial instruments	**12,209.1**	**5,196.7**	**17,405.8**
Other liabilities not included under IAS 39			260.2
Shareholders' equity			1,062.5
Minority interests			0.1
Total assets			**18,728.6**

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

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 fair value, i.e. book value equates to fair value. Cash reserves, interbank funds, book-entry claims on 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 values:

in €m	31.12.2010		31.12.2009	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	18.4	18.4	17.2	17.2

in €m	31.12.2010		31.12.2009	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	1,180.4	1,180.4	2,697.6	2,697.6
Customer accounts (from the measurement of long-term promissory note loans borrowed)	10,148.0	10,170.5	9,062.1	9,094.8
Certificated liabilities	10.0	9.5	10.0	9.7
Subordinated capital	378.4	401.1	384.4	399.4
Other financial instruments	102.2	102.2	55.0	55.0

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.

in €m	31.12.2010	31.12.2009
	Book value	Book value
Partnerships	15.9	17.0
Holdings in unlisted public limited companies	35.8	36.1
Total	51.7	53.1

During the year under report, partnerships for which there is no active market were disposed of in the amount of € 0.1 million (2009: € 0.0 million); the Bank has no intentions to dispose of further partnerships at this point in time.

The following overview shows which method was used to calculate the fair value of the items measured at fair value:

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2010 in €m		observed parameters	unobservable parameters		
Trading assets	1,326.5	8,786.3	17.8	0.0	10,130.6
of which derivatives in hedging relationships	0.0	0.8	0.0	0.0	0.8
Financial assets	922.4	2,326.0	5.8	51.7	3,305.9
Trading liabilities	104.9	5,031.5	63.7	0.0	5,200.1
of which derivatives in hedging relationships	0.0	5.7	0.0	0.0	5.7

Measurement method	Active market	Internal model with		Measured at cost	Total
31.12.2009 in €m		observed parameters	unobservable parameters		
Trading assets	1,551.1	8,416.7	37.9	0.0	10,005.7
of which derivatives in hedging relationships	0.0	0.2	0.0	0.0	0.2
Financial assets	627.1	2,438.5	7.4	53.1	3,126.1
Trading liabilities	614.3	4,499.7	82.8	0.0	5,196.7
of which derivatives in hedging relationships	0.0	3.2	0.0	0.0	3.2

For some financial instruments, quoted prices are used as fair values (so-called level 1). The fair values of the financial instruments are measured using the Bank's own internal measurement models. These models allow all parameters included on the market to be observed (so-called level 2).

Equity instruments comprise for the most part plain vanilla options or single barrier options. The former are measured by means of a Black-Scholes approach (binomial process), while the latter are evaluated using an approximate valuation approach. The following observable market parameters underlying spot, underlying volatility, underlying dividends and interest rate are included in these models.

Level 2 transactions in interest rate instruments are generally valued using the discounted cash flow method or the Black-Scholes method. The parameters required here (swap rates and volatility) can also be observed on the market.

No financial Instruments were transferred from level 1 to level 2 in the year under report (2009: € 512.3 million). Similarly, no financial instruments were transferred from level 2 to level 1 (2009: € 61.1 million).

Additionally, the fair value of some financial instruments was calculated using valuation models, where at least one of the parameters used cannot be observed on the market (so-called level 3). These instruments include, amongst other things, equity certificates on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured in an analytical Black-Scholes approach. As a rule, the correlation between the individual underlyings or between the underlying and the foreign currency represents the parameters that are not observed on the market.

In the year under report, the volume of level 3 financial instruments amounted to € 94.9 million (2009: € 128.1 million). The portfolio of level 3 financial instruments developed as follows in the year under report:

in €m	Trading assets	Financial assets	Trading liabilities	Total:
01.01.2010	**37.9**	**7.4**	**82.8**	**128.1**
Changes in the carrying amount				
recognised in the income statement	0.9	1.6	2.8	5.3
recognised directly in equity	0.0	0.0	0.0	0.0
Purchases	4.9	0.0	0.0	4.9
Issuance	0.0	0.0	42.6	42.6
Sales	0.0	0.0	0.0	0.0
Maturities	17.0	0.0	58.4	75.4
Transfers to level 3	0.0	0.0	0.0	0.0
Transfers out of level 3	0.0	0.0	0.0	0.0
31.12.2010	**24.9**	**5.8**	**64.2**	**94.9**

As in the previous year, no level 3 financial instruments were transferred to other fair value levels in the year under report. No financial instruments were transferred into level 3 either (2009: € 100.4 million).

A 25 % change in the unobservable parameters would lead to a € 1.5 million (2009: € 0.6 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:

in €m	2010	2009
As at 01.01.	1.8	3.3
New business	0.7	0.4
Day-1 profit or loss recognised in the income statement	–0.2	–1.9
of which positions closed out	–0.1	–0.5
of which matured transactions	–0.1	–1.4
of which observable market parameters	0.0	0.0
As at 31.12.	2.3	1.8

58 ▸ Holdings in Foreign Currency

As at 31 December 2010, assets denominated in a foreign currency were valued at € 2,108.4 million (2009: 1,097.2 million) and the corresponding liabilities at € 3,114.2 million (2009: € 1,797.1 million). As in the previous year, 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 derivatives, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €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 2010	Total 2009
OTC products	FRAs	0	0	0	0	1,300
	Interest rate swaps	3,628	12,745	8,481	24,854	27,723
	Interest rate options	565	3,938	1,409	5,912	7,253
	Forward transactions	292	100	712	1,104	1,191
Exchange-listed products	Interest rate futures	2,020	1,831	0	3,851	586
	Interest rate options	0	0	0	0	37
Interest rate transactions		6,505	18,614	10,602	35,721	38,090
OTC products	Forward exchange forwards	25,623	1,580	4	27,207	23,928
	Cross currency swaps	227	144	65	436	655
	Foreign exchange options	2,736	56	0	2,792	2,754
Foreign exchange-based transactions*		28,586	1,780	69	30,435	27,337
OTC products	Forward transactions	1	1	0	2	282
	Equity/index options	94	138	0	232	278
	Equity swaps	119	44	30	193	116
Exchange-listed products	Equity/index futures	816	30	0	846	502
	Equity/index options	3,424	1,699	312	5,435	4,841
Equity/index-based transactions		4,454	1,912	342	6,708	6,019
Total financial derivatives		39,545	22,306	11,013	72,864	71,446

* including gold transactions

Breakdown of the derivatives business by nominal amount

in € 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 2010	Total 2009	Total 2010	Total 2009
OTC products	FRAs	0	0	0	0	0	0	0
	Interest rate swaps	46	330	500	876	861	1,146	1,111
	Interest rate options	–19	44	34	59	74	75	103
	Forward transactions	19	0	0	19	7	2	8
Interest rate transactions		46	374	534	954	942	1,223	1,223
OTC products	Forward exchange forwards	368	33	0	401	340	372	325
	Cross currency swaps	6	11	0	17	15	13	10
	Foreign exchange options	30	2	0	32	43	34	42
Foreign exchange-based transactions*		404	46	0	450	398	419	376
OTC products	Forward transactions	0	0	0	0	137	0	204
	Equity/index options	9	21	1	31	61	83	47
	Equity swaps	1	1	2	4	0	20	15
Equity/index-based transactions		10	22	3	35	198	103	266
Total financial derivatives		460	442	537	1,439	1,538	1,745	1,865

* including gold transactions

Hedging instruments

HSBC Trinkaus uses specific derivatives (usually interest rate swaps) to hedge against market interest rate risk on financial assets (so-called fair value hedges; cf. Note 6). This hedging relationship resulted in positive market values of € 0.9 million as at 31 December 2010 (2009: € 0.2 million) as well as negative market values of € 5.8 million (2009: € 3.2 million).

The hedge result is specified in more detail in the following overview:

Profit and loss in €m	2010	2009
From hedging instruments	–1.7	–0.7
From underlying transactions	1.9	0.6

60 ▸ Contingent Liabilities and Other Obligations

in €m	31.12.2010	31.12.2009
Contingent liabilities on guarantees and indemnity agreements	1,305.4	1,569.2
Irrevocable loan commitments	3,751.9	3,290.2
Total	5,057.3	4,859.4

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 € 0.5 million (2009: € 1.0 million) is still outstanding. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

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

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 78.5 million (2009: € 90.3 million) as at the balance sheet date.

in €m	31.12.2010	31.12.2009
Up to 1 year	26.3	27.7
Over 1 year up to 5 years	25.1	35.7
Over 5 years	27.1	26.9
Total commitments arising from leasing and rental contracts	78.5	90.3

The Bank outsourced to external third parties the operation of the information centre for card payments and the establishment and operation of an account information centre in accordance with section 24 c of the German Banking Act (KWG). The outsourced sections do not have any material impact on the Bank's financial situation.

61 ▸ Assets Pledged as Collateral

Securities with a nominal value of € 898.9 million (2009: € 999.8 million) were deposited as collateral for transactions on Eurex and for securities lending operations (cf. Note 31).

Debt instruments with a nominal value of € 3,873.7 million (2009: 4,879.1 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 ▸ Trust Activities

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

in €m	31.12.2010	31.12.2009
Trust assets	**373.7**	**361.1**
Loans and advances to banks	153.2	158.5
Loans and advances to customers	68.4	51.8
Investments	152.1	150.8
Trust liabilities	**373.7**	**361.1**
Deposits by banks	2.2	3.4
Customer accounts	371.5	357.7

63 ▶ Participating Interests

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

Company	Registered office	Percentage share of issued share capital	Equity held in the company in € 000	Net income for 2010 in € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	0 *
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	108,542	10,640
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,715	908
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	24,000	0 *
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	4,642	843
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,981	7
HSBC Transaction Services GmbH***	Düsseldorf	100.0	13,532	105
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	0 *
HSBC Trinkaus Gesellschaft für Kapitalmarkt-investments OHG****	Düsseldorf	10.0	276,217	1,167
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	0 *
DPT Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	0 *
HSBC Global Asset Management (Österreich) GmbH	Vienna	100.0	720	430
HSBC Global Asset Management (Switzerland) AG****	Zurich	50.0	848	101
Companies with a special mission				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	0 *
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	3,010	–5,812
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	4
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	36	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	65	6
Trinkaus Canada 1 GP Ltd.*****	Toronto	100.0	–13	–14
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	21	2
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	39	11
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,671	1,644
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	0*

Company	Registered office	Percentage share of issued capital	Equity held in the company in € 000	Net income for 2010 in € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	2,762	–634
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,809	309
Other companies				
HSBC Trinkaus Consult GmbH*****	Düsseldorf	100.0	5,685	514
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	28	2
SINO AG ******	Düsseldorf	26.6	6,920	2,709

* Profit-transfer agreement
** Equities issued by private companies
*** Renamed, formerly International Transaction Services GmbH
**** Consolidated at equity
***** Figures as at 31.12.2009
******Figures per 31.12.2009; consolidated at equity

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

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

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

65 ▸ Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., 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 fulfill 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 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	2010	2009
Staff employed abroad	218	201
Staff employed in Germany	2,120	2,052
Total (including trainees)	**2,338**	**2,253**
of which:		
female members of staff	1,025	1,010
male members of staff	1,313	1,243

67 ▸ Auditors' Fees

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

in €m	2010	2009
Audits	0.7	0.7
Other audit or valuation services	0.4	0.3
Tax advisory services	0.0	0.2
Other services	0.2	0.1
Total	**1.3**	**1.3**

68 Business Relationships with Companies and Persons Defined as Related Parties

In accordance with our "best of both worlds" strategy, we foster intensive business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions. Overall, the consolidated income statement includes € 120.2 million (2009: 120.5 million) in income and € 21.3 million (2009: € 26.4 million) in expenses for transactions with HSBC Holdings plc, London and its affiliated companies. The decline in income and expenditure is attributable in particular to lower interest income and expenses. In the 2010 financial year, interest income from other HSBC companies amounted to € 13.6 million (2009: 53.7 million), while interest expense stood at € 8.3 million (2009: € 15.1 million).

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

	Affiliated companies		Associated companies	
in €m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Loans and advances to banks	445.7	939.3	0.0	0.0
Loans and advances to customers	0.3	0.2	26.3	35.4
Total	446.0	939.5	26.3	35.4

Liabilities to banks and customers include the following amounts:

	Affiliated companies		Associated companies	
in €m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Deposits by banks	643.5	1,783.4	0.0	0.0
Customer accounts	13.8	10.3	8.5	10.0
Total	657.3	1,793.7	8.5	10.0

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

	Securities		Derivatives	
in €m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Trading assets	171.0	435.2	734.7	681.5
Trading liabilities	0.0	0.0	999.8	962.6

Compensation of the Executive Bodies

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

At € 2,189.8 thousand, the fixed remuneration of all members of the Management Board was virtually unchanged compared with 2009 (€ 2,157.3 thousand). The variable share of the remuneration is € 5,844 thousand (2009: € 5,715 thousand); it will be disbursed in cash in three cases and in equal proportions of cash and HSBC Holdings plc shares in one case. In addition, the Management Board will receive share options as a so-called long-term incentive, which is granted as HSBC Holdings plc shares in three cases and in equal proportions of cash and HSBC Holdings plc shares in one case. A holding period of six months is stipulated in the latter case, in accordance with a disbursement structure specified in greater detail below. This element of remuneration equates to a fair value of € 6,512 thousand for 2010 (2009: € 4,485 thousand).

Other compensation in the amount of € 86.9 thousand (2009: € 85.6 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

As in previous years, the performance-related components for 2010 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The shares allocated as variable compensation for 2007 will be transferred in three equal amounts in 2009, 2010 and 2011, in each case after the announcement of the HSBC Group's result for the year. This practice has been modified for 2008. The allocated shares will no longer be paid in three instalments, but in one amount in early 2012. Of the shares allocated in 2010 as a variable component for the year 2009, the payments will be transferred in two equal instalments in the second and third years (in other words in 2012 and 2013) after the commitment. The shares in HSBC Holdings plc allocated within the scope of the variable remuneration for the 2010 financial year will be transferred in three equal instalments to three members of the Management Board in the next three financial years (in other words from 2012 to 2014). The so-called long-term incentive part of the variable remuneration for 2010 will be paid out in three equal instalments to one member of the Management Board, namely in 2012, 2013 and 2014; each of these three tranches will be paid in equal proportions in cash and in HSBC Holdings plc shares, for which a six-month holding period is stipulated.

Provisions totalling € 13.3 million (2009: € 11.1 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 7 June 2011, the compensation of the Supervisory Board will be € 1,134,330.82 (2009: € 1,122,838.37). The members of the Advisory Board received remuneration totalling € 362,025.00 (2009: € 353,100.00). Furthermore, fees were paid to four (2009: three) members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 313,862.5 (2009: € 301,791.38). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for 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 € 4.4 million (2008: € 4.4 million). Provisions totalling € 36.3 million (2009: € 34.5 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

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

As in the previous year, advances and loans were not granted to members of the Supervisory Board and the Management Board. Contingent liabilities with respect to third parties in favour of members of executive bodies occurred only within the scope of the structure shown in Note 65.

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 31.12.2010	Number of option rights 31.12.2009
SAYE 2005 (5Y)	01.08.2005	3.00	8.42	–	34,175
SAYE 2006 (5Y)	01.08.2006	2.67	9.59	3,502	3,502
SAYE 2007 (3Y/5Y)	01.08.2007	2.90/2.99	9.08	6,784	34,797
SAYE 2008 (3Y/5Y)	01.08.2008	2.66/2.77	7.55	47,269	53,472
SAYE 2009 (1Y/3Y/5Y)	01.08.2009	1.67/1.59/1.50	3.64	791,160	995,110
SAYE 2010 (1Y/3Y/5Y)	01.08.2010	1.75/1.90/2.01	6.07	172,951	0
Total				1,021,666	1,121,056

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 August 1 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 2010 was € 7.74 (1 August 2009: € 7.15).

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2010	SAYE 2005–2009	1,121,056	4.16
Granted in the course of the year	SAYE 2010	172,951	6.07
Exercised in the course of the year	SAYE 2005 (5Y)/ SAYE 2007 (3Y)/ SAYE 2009 (1Y)	239,926	9.04
Forfeited in the course of the year	SAYE 2006–2010	32,415	9.74
Balance as at 31.12.2010		1,021,666	4.29
of which outstanding option rights		1,002,185	
of which exercisable option rights		19,481	

The staff expenses to be taken into account in the year under report are € 0.7 million (2009: € 0.8 million).

Breakdown of the share-participation scheme

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

in €m	Performance-related remuneration in HSBC shares	
	For financial year 2010	For financial year 2009
Maturing in March 2012	3.8	5.7
Maturing in March 2013	3.8	5.7
Maturing in March 2014	3.8	0.0
Total:	**11.3**	**11.4**

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € 6.6 million (2009: € 2.2 million). The corresponding liability for share-based payments amounts to € 20.9 million (2009: € 10.4 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 public on the HSBC Trinkaus & Burkhardt AG website under www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/corporategovernance.

71 ▸ Offices held by Members of the Management Board

As at 31 December 2010, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

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

Paul Hagen	
Position	Company
Deputy Chairman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
Member of the Advisory Board	RWE Supply & Trading GmbH, Essen

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

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

72 ▸ Offices held by Other Members of Staff

As at 31 December 2010, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Dr. Rudolf Apenbrink	
Position	Company
Chairman of the Board of Directors	HSBC Global Asset Management (Taiwan) Limited, Taipei, Taiwan
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Member of the Board of Directors	BaoViet Fund Management Limited Company, Hanoi, Vietnam
Supervisor	HSBC Jintrust Fund Management Company Limited, Shanghai, China
Rotating Vice Chairman	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland

Silke Büdinger	
Position	Company
Member of the Board of Directors	GS&P Kapitalanlagegesellschaft S.A., Wasserbillig, Luxembourg

Robert Demohn	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Gerd Goetz	
Position	Company
Member of the Supervisory Board	sino AG, Düsseldorf
Member of the Supervisory Board	tick-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment-AG TGV, Düsseldorf

Marcus Hollmann	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Dr. Detlef Irmen	
Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf

Wolfgang Jakobs	
Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

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

Dr. Christiane Lindenschmidt	
Position	**Company**
Chairwoman of the Supervisory Board	HSBC Transaction Services GmbH (formerly ITS), Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services S.A., Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers S.A., Luxembourg

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

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

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

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

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

Hans Jakob Zimmermann	
Position	**Company**
Chairman of the Supervisory Board	Schaltbau Holding AG, Munich
Chairman of the Supervisory Board	Garant Schuh & Mode AG, Düsseldorf
Chairman of the Supervisory Board	Paragon AG, Delbrück
Member of the Supervisory Board	Merkur Bank KGaA, Munich
Member of the Board of Directors	Rheinzink GmbH & Co. KG, Datteln

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 Board of Directors	HSBC Private Banking Holdings (Suisse) S.A., Geneva, Switzerland
Chairman of the Board of Directors	Management Partner GmbH, Stuttgart

Peter W. Boyles	
Position	**Company**
Member of the Supervisory Board	S.A. des Galeries Lafayettes, Paris, France
Deputy Chairman	HSBC France, Paris, France
Chairman	HSBC Bank A.S., Istanbul, Turkey
Director	HSBC Bank Malta plc, Valetta, Malta

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
Chairman of the Supervisory Board	REVIUM Rückversicherung AG, Melsungen
Member of the Supervisory Board	Aesculap Management AG, Tuttlingen
Member of the Supervisory Board	Frankfurter Allgemeine Zeitung GmbH, Frankfurt/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 Supervisory Board	WIKUS-Sägenfabrik Wilhelm H. Kullmann GmbH & Co. KG, Spangenberg
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/Main
Member of the Board of Directors	Wilhelm Werhahn KG, Neuss
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen

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

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

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

Professor Dr. Ulrich Lehner	
Position	Company
Chairman of the Supervisory Board	Deutsche Telekom AG, Bonn
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	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 Board of Directors	Novartis AG, Basel, Switzerland
Member of the Shareholders' Committee	Henkel AG & Co. KGaA, Düsseldorf
Member of the Advisory Board	Dr. August Oetker KG, Bielefeld

Friedrich Merz	
Position	**Company**
Chairman of the Supervisory Board	WEPA Industrieholding SE, Arnsberg
Member of the Supervisory Board	AXA Konzern AG, Cologne
Member of the Supervisory Board	Deutsche Börse AG, Frankfurt/Main
Member of the Supervisory Board	Borussia Dortmund GmbH & Co. KGaA, Dortmund
Member of the Board of Directors	Stadler Rail AG, Bussnang, Switzerland
Member of the Board of Directors	BASF Antwerpen N.V., Antwerp, Belgium

Hans-Jörg Vetter	
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	Deutscher Sparkassen Verlag GmbH, Stuttgart
Deputy Chairman of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt/Main

74 ▸ Publication

The Annual Report will be released for publication on 14 April 2011. The release for publication was approved by the Management Board in its meeting on 11 March 2011.

Düsseldorf, 4 February 2011

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity and cash flows, notes to the financial statements as well as the Group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be 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 Group's business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the Group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that the audit provides a sufficiently sure basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with section 315a para. 1 HGB and give, 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, 18 February 2011

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner
Auditor

Signed by Bormann
Auditor

Report of the Supervisory Board

Management

In four meetings conducted by the Management Board, the Supervisory Board received comprehensive reports on the development of business at the Bank, its major subsidiaries and individual business areas during the 2010 financial year. In a further meeting following the Annual General Meeting the newly elected Supervisory Board was constituted and the committees appointed.

At each meeting, the Management Board's 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. Financial assets and their valuation as well as the Bank's liquidity situation were presented to the Supervisory Board. The reports on significant events of the 2010 financial year related inter alia to the Bank's growth strategy in all business segments, in particular in the business with corporate clients from the upper MME segment and the capital increase carried out for this purpose, which the Supervisory Board approved by written circular. The Supervisory Board was also informed that in the opinion of the Management Board its composition is no longer geared towards the One-Third Employee Participation Act, but to the provisions of the Co-Determination Act (MitbestG). The Supervisory Board was in agreement with this. The steps required to change the status pursuant to section 97 of the German Stock Corporation Act (AktG) were introduced by the Management 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 2011 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 2010 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 preparing the Supervisory Board's resolutions over matters relating to the Management Board, 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 and the approval of connected party loans to Bank employees and members of the Supervisory Board;

- the Audit Committee, which is responsible among other things for mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit, monitoring the independence of the external auditors, arranging the fee contract with them, accounting and basic risk management issues as well as regularly dealing with the audit findings of the internal audit department and the external auditors;

- 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), in particular decisions over connected party loans to companies. Furthermore, the Credit Committee discusses with the Management Board the risk management strategy to be drawn up by the Management Board.

The Committees each comprise three members of the Supervisory Board. The Chairman of the 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 as well as the Credit Committee met four times and the Audit Committee seven times, of which three times in the form of a telephone conference, during the 2010 financial year.

The Personnel and Nominations Committee made proposals to the Supervisory Board for the compensation of the members of the Management Board and was concerned with the various new regulations on compensation issues, namely with the amendment of section 87 of the German Stock Corporation Act (AktG) in 2009 by the Act on the Appropriateness of Management Board Compensation (VorstAG) and the Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) announced by the Federal Ministry of Finance on 6 October 2010. The candidates for the Supervisory Board to be newly elected at the Annual General Meeting on 8 June 2010 were proposed to the Supervisory Board. Furthermore, various appointments to the management of the Bank's subsidiaries as well as the appointment of two new Executive Committee members were approved.

Net loan impairment and other credit risk positions were important topics in the Credit Committee. This included both the general credit risk strategy, which was also discussed by the Supervisory Board itself and the discussion of individual exposures. The Credit 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 the Compliance Officer and the Anti-Money Laundering Officer in four meetings and in two meetings also reports from the auditors. In the three telephone conferences it dealt with the drafts of the quarterly reports in each case before publication.

Corporate Governance

In its meetings in February, September and November, the Supervisory Board discussed the German Corporate Governance Code and its implementation within the company. The Report on Corporate Governance in 2010, which lists and comments on the individual divergences from the recommendations of the Government Commission on the German Corporate Governance Code, can be found in this Annual Report and, like the Declaration of Conformity pursuant to section 161 German Stock Corporation Act (AktG), 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 recommended by the German 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 2010 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.

Owing to other urgent commitments within the HSBC Group, Stuart Gulliver was able to participate in only one Supervisory Board meeting in the 2010 financial year.

Annual financial statements

The Supervisory Board examined and approved in its meeting of 13 April 2011 the annual financial statements of the Bank for the year ended 31 December 2010, as well as the 2010 Management Report and the proposal of the Management Board for the appropriation of profit. At the Annual General Meeting of 8 June 2010 KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed as external auditors to the Bank and its company Group. On 22 September 2010 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 2010 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 2010 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code. These accounts were also audited by the external auditors and given an unqualified opinion. The consolidated accounts and the audit report were submitted to the Supervisory Board and approved by it in its meeting of 13 April 2011.

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 2010 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 Supervisory Board examined and noted with approval this report.

Organisational changes on the Supervisory Board

The Supervisory Board was re-elected at the Annual General Meeting on 8 June 2010. Peter Boyles, Friedrich Merz and Timo Grütter, representing the workforce, were newly elected to the Supervisory Board.

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.

Düsseldorf, April 2011

The Supervisory Board

Dr. Sieghardt Rometsch
Chairman

Report on Corporate Governance in 2010

Corporate Governance, an integral part of our corporate culture

The German Corporate Governance Code, as adopted by us in the following Declaration of Compliance pursuant to section 161 German Stock Corporation Act (AktG), 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. We have expressed our understanding of values and our behavioural standards in a code of conduct which the Management Board and all employees have undertaken to observe in writing.

The management and representation of the Bank is the responsibility of the Management Board, which consists of four persons and which was supported at the end of 2010 by the two members of the Executive Committee responsible for Corporate Banking and Investment Banking. The Management Board appointed a further member of the Executive Committee as Chief Technology and Services Officer as well as an Executive Board member responsible for Asset Management with effect from 1 January 2011. The organisational structure of the Bank including the responsibilities of the individual board members for the respective business divisions and support functions are presented in the chapter entitled "The Business Divisions".

Composition of the Supervisory Board

The Management Board is overseen by the Supervisory Board elected with it in accordance with the One-Third Employee Participation Act (Drittelbeteilungsgesetz). The Supervisory Board has 15 members, five of whom are chosen from the workforce. The Management Board is of the opinion that since the increase in the number of employees is probably permanent, the Supervisory Board shall now be composed according to the German Co-Determination Act (MitbestG) and therefore introduced with the resolution of 25 November 2010 a status process and transitional process pursuant to section 97 of the German Stock Corporation Act (AktG). After the conclusion of the process at the end of the Annual General Meeting in 2011, the Supervisory Board will be composed of 16 members, half of which will be determined by the shareholders and half by the employees.

Two women are currently members of the Supervisory Board. HSBC as the largest shareholder with over 80 % is represented by two persons on the Supervisory Board both of whom do not have German nationality. LBBW as the second-largest shareholder with just less than 19 % has one representative on the Supervisory Board. Of the ten representatives on the shareholder side, six persons have gained professional experience in leading positions in the banking industry and four persons in corresponding positions in other areas of the economy.

In light of this, the Supervisory Board has named the following goals for its composition in accordance with the Corporate Governance Code:

- The Company's interests are decisive for the composition of the Supervisory Board. The members of the Supervisory Board must be reliable in accordance with the statutory requirements applicable for credit institutions and have the necessary expertise for exercising their control function as well for assessing and monitoring the Bank's transactions.

- The Bank's business model is based among other things on its strong integration into the global network of the HSBC Group. Correspondingly, at least two members of the Supervisory Board should be persons in a leading position at HSBC and therefore bring with them international experience and knowledge in future as well.

- Conflicts of interests with respect to Supervisory Board members are set against independent and efficient Management Board advice and monitoring. The Supervisory Board decides in each individual case how it deals with conflicts of interest which arise. A management function at a major competitor is basically an obstacle to being elected to the Supervisory Board. However, as LBBW is the Bank's second-largest shareholder with just less than 19 % and competes with the Bank only in some areas, it should have one representative on the Supervisory Board in future as well.

- A fixed age limit for membership of the Supervisory Board is not regarded as sensible. A fixed age limit would oblige the Bank to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, still makes valuable contributions to the Bank. It is also conflicts to a certain extent with the general trend towards extending working life. The corresponding recommendation of the German Corporate Governance Code is therefore still not complied with.

- The Supervisory Board is aiming to increase the number of women members from two at present by at least one further female member by 2015. Proposals to the shareholders of candidates for nomination to the Supervisory Board are geared as in the past solely to the company's interests without consideration of sex, age, family situation, religion and world view or ethnic and social origin.

Supervisory Board Committees

The Supervisory Board has formed three committees from its members:

- the Personnel and Nominations Committee, which is responsible among other things for preparing the Supervisory Board's resolutions over matters relating to the Management Board, 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 interest between Management Board or Supervisory Board members and the approval of connected party loans to Bank employees and members of the Supervisory Board;

- the Audit Committee, which is responsible among other things for mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit, monitoring the independence of the external auditors, arranging the fee contract with them, accounting and basic risk management issues as well as regularly dealing with the audit findings of the internal audit department and the external auditors;

- 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), in particular decisions over connected party loans to companies. Furthermore, the Credit Committee discusses with the Management Board the risk management strategy to be drawn up by the Management Board.

Resolutions of the Supervisory Board and of the Committees are passed with the simple majority of the votes cast, provided no other procedure is required by law. All Supervisory Board Committees comprise three members. The Chairman of the Supervisory Board is also Committee chairman only of the Personnel and Nominations Committee. The members of the Management Board, Supervisory Board and Supervisory Board Committees are listed in the Annual Report in the section entitled "Executive Bodies". The report of the Supervisory Board on its activities during the latest financial year, also included in the Annual Report, contains more detailed information on the frequency of the meetings of the Supervisory Board and its Committees as well as the concrete issues dealt with in the latest financial year.

Compensation structures

As a credit institution, the provisions of the Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) announced by the Federal Ministry of Finance on 6 October 2010 apply in particular for HSBC Trinkaus alongside the provisions of the Stock Corporation Act and the recommendations of the German Corporate Governance Code. After detailed risk analysis, the Management Board came to the conclusion that the Bank is not a significant institution within the meaning of section 1 (2) of this ordinance.

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 Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both. The members of the Management Board refrained from applying the contractual ruling according to which 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 for 2008 will no longer be paid in three instalments, but in one amount in early 2012. Of the shares allocated in 2010 as a variable component for the year 2009, the payments will be transferred in two equal instalments in the second and third years, in other words in 2012 and 2013, after the commitment. For three Management Board members, half of the variable compensation for the 2010 financial year will be paid in cash and the other half allocated as HSBC shares in March 2011. In accordance with the earlier ruling, a third of the shares will be transferred in each of the following three financial years, in each case after the announcement of HSBC's result for the year. For one Management Board member, 40 % of the variable remuneration for 2010 will be paid in March 2011 and 20 % in each of the following three years 2012, 2013 and 2014. Half of each of these four tranches consists of a cash component and the other half of HSBC shares.

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 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 employee compensation system is regulated by the collective wage agreements for the private banking industry and the public sector banks for tariff employees and stipulated by the Management Board for non-tariff employees. In addition to a fixed salary, which is reviewed annually, the non-tariff employees receive variable compensation which is stipulated by the Management Board on a discretionary basis for each individual employee based on proposals from the Division and Support Function heads. In keeping with the principles of the HSBC Group regarding the payment of variable compensation, it is paid entirely in cash or partly in cash and partly as an allocation of shares in HSBC holdings plc. According to the principles of the HSBC Group, it is envisaged with respect to the variable compensation for the 2010 financial year that it will be paid entirely in cash in March 2011 up to an amount of € 60,000. Between 10 % and 50 % of the variable compensation exceeding this amount will be paid in HSBC shares depending on the amount. The cash component will be paid in March 2011 and a third of the HSBC shares will be transferred in each of the following three years, 2012, 2013 and 2014, in each case after the announcement of HSBC's result for the year.

The overall amount of all fixed compensation paid in the HSBC Trinkaus & Burkhardt Group in 2010, including the fixed compensation paid for the Management Board, came to € 145.9 million. 1,226 persons were promised variable compensation for the 2010 financial year totalling € 66.4 million in 2011. This figure includes the variable compensation for the Management Board.

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 Act or Code no. 6.6 of the Corporate Governance Code, were carried out in 2010 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 2010 financial year no infringements of these rules were identified, in terms of the form, content or spirit of the Corporate Governance Code.

Declaration of compliance with the German Corporate Governance Code pursuant to section 161 German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of HSBC Trinkaus & Burkhardt AG declare that the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 26 May 2010 announced in the official part of the electronic Federal Gazette were complied with, with the following exceptions and that this code will be complied with in future.

The recommendation of the Government Commission contained in Code no. 2.3.2 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, has not been adopted. 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 the Company's shareholder structure, there is no practical need to propose the resolution of approval required for implementation to the Annual General Meeting.

Code no. 5.4.1 is not applied in that it recommends an age limit for Supervisory Board members which would needlessly reduce the Company's flexibility. A fixed age limit would oblige the Company to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, still makes very valuable contributions to the Bank.

The recommendation contained in Code no. 5.4.2, according to which no more than two former Management Board members may sit on the Supervisory Board, is not applied. HSBC Trinkaus has maintained its status as a private bank even after the change of legal form to a German stock corporation, the most fundamental strategic characteristic of which is the long-term and personal nature of the client relationship. In the past, the transition from the executive management of the Bank to the Supervisory Board has also prevented the disruption of client relationships and ensured continuity, for which the former Managing Partners or Management Board members also stand surety as members of the Supervisory Board. The rigid restriction of the number of former Management Board members to two does not do justice to this concept.

Code no. 5.4.3 of the Corporate Governance Code is applied subject to the proviso that individual elections to the Supervisory Board take place not as a rule, but only if an application is made by a shareholder to this effect at the Annual General Meeting at which the elections are to take place. This upholds all protective interests at the same time as preserving the necessary flexibility.

The recommendation of the Government Commission contained in sentence 3 of Code no. 5.4.3, according to which proposals for candidates for the Chairman of the Supervisory Board are to be announced to the shareholders in respect of upcoming Supervisory Board elections, is not applied. Re-elections of the Supervisory

Board take place at HSBC Trinkaus for the entire Supervisory Board in each case for which a standard closing date for the election period applies according to the 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 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 from these proposals would be associated with negative publicity which could harm the Company.

The recommendation contained in Code no. 5.4.6 on the publication of the individual emoluments of the members of the Supervisory Board including emoluments for advisory or agency services provided individually in the Corporate Governance Report have not been complied with. In accordance with the statutory provisions, details of the compensation of members of the Supervisory Board are published in the Notes to the individual financial statements and in Note 68 to the Consolidated Financial Statements of HSBC Trinkaus & Burkhardt AG. The provisions of the Articles of Association relating to the compensation of members of the Supervisory Board are presented in the Corporate Governance Report. As regards payments for personal services provided, such as advisory services, this would encroach extensively upon the personal rights of the Supervisory Board member with no absolute necessity.

The recommendation of the Government Commission contained in Code no. 6.3 is applied with the clarifying references that the equal treatment of shareholders, financial analysts and similar addressees in respect of information is limited to price-relevant information. 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” within the meaning of Code no 6.3 in the interest of the clear determination of the extent of the information communicated.

Only such information which is relevant for the HSBC Trinkaus & Burkhardt AG share price is regarded as information on the enterprise which the Company discloses within the meaning of Code no. 6.8. The above references relating to Code no. 6.3 apply analogously.

By way of deviation from Code no. 7.1.2, in the interest of greater timing flexibility concerning the production of its consolidated financial statements and interim reports, HSBC Trinkaus & Burkhardt AG will adhere to the statutory deadlines.

HSBC Trinkaus & Burkhardt AG complies with the recommendation contained in Code no. 7.1.4 insofar as statutory publication thresholds are reached. By making reference to the statutory publication thresholds, misinterpretations are avoided.

Düsseldorf, February 2011

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, 4 February 2011

Andreas Schmitz

Paul Hagen

Dr. Olaf Huth

Carola Gräfin v. Schmettow

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Overall production
mpm media process management GmbH, Mainz

Layout
Ogilvy & Mather Advertising GmbH, Düsseldorf

Photos
Claudia Kempf, Wuppertal
HSBC Trinkaus & Burkhardt AG, Düsseldorf

Printed by:
Service-Druck Kleinherne GmbH & Co KG, Neuss

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 2010 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 2011. Such statements about the future can be found in particular in the Letter from the Management Board to our shareholders in the "Outlook for 2011" 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 2011 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

11 May 2011
Interim Report as at 31 March 2011

7 June 2011
Annual General Meeting

15 August 2011
Press conference
Interim Report as at 30 June 2011

9 November 2011
Interim Report as at 30 September 2011

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2010	2009	2008	2007	2006
Total assets	**18,584.0**	**18,728.6**	**22,205.7**	**21,066.9**	**18,676.4**
Assets					
Cash reserve	336.1	177.0	139.5	332.3	436.3
Loans and advances to banks	1,402.9	2,429.4	2,979.7	4,117.0	4,440.1
Loans and advances to customers	3,089.6	2,687.5	4,082.6	4,272.9	3,173.1
Net loan impairment and other credit risk provisions	–49.1	–42.9	–21.4	–16.2	–17.0
Trading assets	10,130.6	10,005.7	12,482.6	10,436.8	9,044.0
Financial assets	3,305.9	3,126.1	2,118.8	1,568.2	1,437.6
Interests in associates	38.0	10.6	10.1	15.2	1.5
Property, plant and equipment	83.1	83.3	81.1	196.3	80.4
Intangible assets	38.9	44.1	56.0	12.3	9.3
Taxation recoverable	4.3	13.0	17.5	54.8	2.5
current	4.3	13.0	13.0	54.8	2.5
deferred	0.0	0.0	4.5	0.0	0.0
Other assets	203.7	194.8	259.2	77.3	68.6
Liabilities					
Deposits by banks	1,180.4	2,697.6	2,709.1	2,532.7	1,495.7
Customer accounts	10,148.0	9,062.1	11,592.8	10,283.2	8,861.4
Certificated liabilities	10.0	10.0	10.0	10.0	29.8
Trading liabilities	5,200.1	5,196.7	6,152.9	6,488.4	6,683.6
Provisions	96.5	152.2	117.4	112.4	113.0
Taxation*	66.7	67.7	85.1	106.0	62.0
current*	52.6	61.1	81.5	48.4	25.7
deferred	14.1	6.6	3.6	57.6	36.3
Other liabilities	214.1	95.3	108.2	106.8	105.4
Subordinated capital	378.4	384.4	458.7	458.7	440.6
Shareholders' equity*	1,289.7	1,062.5	955.0	968.7	884.9
Minority interests	0.1	0.1	16.5	0.0	0.0
Income statement					
Net interest income	128.7	143.3	139.5	110.0	88.6
Net loan impairment and other credit risk provisions	7.7	22.4	4.5	–3.5	–5.2
Share of profit in associates	0.4	0.6	0.5	6.4	2.5
Net fee income	404.0	346.2	347.6	318.1	281.8
Net trading income	124.6	117.9	98.2	100.1	104.0
Administrative expenses*	439.3	400.8	384.2	334.0	298.6
Other operating income	9.6	11.6	3.5	1.3	–1.0
Operating profit	220.3	196.4	200.6	205.4	182.5
Income from financial assets	–0.6	–24.0	–50.0	1.9	6.5
Income from derivatives in the bank book	–4.2	5.1	–11.1	0.0	0.0
Other net income	–5.5	–13.8	–1.3	–0.1	0.5
Pre-tax profit	210.0	163.7	138.2	207.2	189.5
Tax expenses*	70.6	54.5	48.6	63.2	74.9
Net profit for the year	139.4	109.2	89.6	144.0	114.6

* 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.