Annual report 2020

HSBC Trinkaus & Burkhardt Group

HSBC

Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	2020	2019	Change in %
Results in €m			
Operating revenues*	888.3	786.8	12.9
Net loan impairment provisions in the lending and securities business	83.7	45.1	85.6
Administrative expenses	646.4	618.9	4.4
Pre-tax profit	187.0	144.8	29.1
Tax expenses	57.5	47.3	21.6
Net profit	129.5	97.5	32.8
Balance sheet figures in €m			
Total assets	29,467.0	26,592.8	10.8
Shareholders' equity	2,594.5	2,488.6	4.3
Ratios			
Cost/efficiency ratio in %	70.5	76.5	–
Return on equity before taxes in %	7.7	5.9	–
Net fee income in % of operating revenues	55.6	57.6	–
Funds under management and administration in €bn	348.0	323.2	7.7
No. of employees at the reporting date	2,911	3,083	–5.6
Share information			
Number of shares issued in million	34.1	34.1	
Dividend per share in €	4.00	0.00	–
Earnings per share in €	3.34	2.41	38.6
Share price at the reporting date in €	71.50	47.00	52.1
Market capitalisation at the reporting date in €m	2,437.3	1,602.1	52.1
Regulatory ratios**			
Tier 1 capital in €m	2,140.6	1,998.2	7.1
Regulatory capital in €m	2,422.8	2,314.2	4.7
Risk-weighted assets in €m	15,390.9	15,897.2	–3.2
Tier 1 capital ratio in %	13.9	12.6	–
Equity ratio in %	15.7	14.6	–

* Operating revenues include net interest income, net fee income, net trading income and the balance of other operating income and expenses as well as gains and losses from the disposal of assets measured at amortised cost.

** Following confirmation of the balance sheet.

Contents

Ladies and Gentlemen,

2020 proved the strength of our diversified business model. While the economic turmoil resulting from the coronavirus pandemic required significantly higher net loan impairment in the lending business, the capital market and securities business flourished in particular. We have increasingly supported our clients in tapping into the capital markets. In addition, private investors discovered shares as an attractive investment in the low-interest environment. This brought us record volumes in securities settlement and in trading in shares and derivatives.

In the challenging 2020 financial year, HSBC Trinkaus & Burkhardt AG (HSBC Germany) thereby succeeded in achieving substantial growth as well as significantly higher net fee income and net trading income. Operating revenues increased by 12.9% year on year to €888.3 million. This exceeded the previous peak years of 2017 and 2019, with operating revenues of a good €780 million in each case, by around €100 million. Despite the 86% increase in net loan impairment to €83.7 million, pre-tax profit climbed by 29.1% to €187 million.

The efficiency programme launched in 2019 had an impact on costs last year that made itself felt on the cost side. Personnel expenses fell by €8.8 million to €378.6 million, while other administrative expenses were higher than the previous year (€192.7 million) at €216.8 million. One of the causes of this was an increase in the settlement of services within the HSBC Group. In addition, depreciation and amortisation increased by €12.2 million to €51 million. All in all, administrative expenses rose by €27.5 million to €646.4 million. The cost efficiency ratio improved from 76.5% to 70.5%. Adjusted for the costs of the efficiency programme, the cost efficiency ratio was 64.8% and pre-tax profit increased by 40% to €239.3 million.

Net fee income rose significantly in 2020 to €494.0 million (previous year: €453.1 million). This accounts for around 55% of revenues. HSBC Securities Services and Capital Financing contributed significantly to the increase, with HSBC Securities Services recording a significant increase in fee income in the securities portfolio business as well as in the traditional securities transaction business. The number of securities transactions processed more than tripled to 232 million (previous year: 66 million). Capital Financing was able to continue the good results of previous years, clearly doubling its fee income to €61.8 million (previous year: €27.5 million).

The boom on the stock exchanges, the higher volatilities on almost all relevant markets and the continuing high demand for equities and equity derivatives had a significant impact on the trading result in 2020. At €159.8 million (previous year: €70.4 million), the result more than doubled. Of this, €128.6 million alone (previous year: €44.8 million) is attributable to trading in equities and equity/index derivatives.

Net interest income rose slightly in 2020 to €226.5 million (previous year: €228.1 million). The turbulence in the wake of the economic crisis made itself felt here. Loans and advances to customers amounted to €8,516 million at the end of the year (previous year: €10,867 million). The decline is largely explained by the reduction in drawings on clients' credit lines in the second half of the year and, to a lesser extent, by the Bank's realignment in connection with HSBC's European strategy.

HSBC Germany has been a wholly-owned subsidiary of HSBC since January 2021. The takeover was the logical step towards further integration in the HSBC Group and will put us in an even better position to master the challenges that lie ahead. 2020 has shown that we are on the right track.

More than anything, we owe our growth and the success of our diversified business model in 2020 to our employees. Their accomplishments have been exceptional over the past year. They responded to the challenges posed by the COVID-19 pandemic with enormous dedication and a high degree of flexibility. At the same time, the crisis made huge demands of them in their private lives. Families organised childcare and home schooling or provided care for those in need of it, while those living alone were particularly affected by contact restrictions. We will continue to find pragmatic solutions for our employees so as to keep the pressure as low as possible.

Following the outbreak of the coronavirus pandemic in Germany, the Bank enabled nearly all of its employees to work from home within a very short space of time. Even during the period of low infection rates in the summer months, only one third of staff worked in the office buildings. In view of rising COVID-19 figures in Germany, the attendance rate was quickly reduced and working from home was expanded to the maximum. In this way, the Bank contributed to containing the incidence of infection while at the same time protecting the health of its employees.

Even now, approximately one year after the outbreak of the coronavirus pandemic, the outlook for the future is fraught with uncertainty. We will nonetheless continue to pursue the path we have chosen. Above all, this means pushing ahead with our integration in the HSBC Group so as to become more efficient and exploit all the advantages of a joint company to the benefit of our clients.

Yours faithfully,

The Management Board

Carola Gräfin v. Schmettow

Dr Rudolf Apenbrink

Fredun Mazaheri

Thomas Runge

Nicolo Salsano

The Management Board

01

Carola Gräfin v. Schmettow
Chairwoman of the Management Board
Responsible for Global Markets and Securities Services

02

Dr Rudolf Apenbrink
Responsible for Global Private Banking and Asset Management

03

Fredun Mazaheri
Responsible for Risk Management, Compliance and Finance

04

Thomas Runge
Responsible for HSBC Operations, Services and Technology as Chief Operating Officer

05

Nicolo Salsano
Responsible for Corporate and Institutional Banking

Executive Committee

01

Dr Andreas Kamp
Responsible for
Finance as the
Chief Financial Officer

02

Christian Kolb
Responsible for the business
with MMEs in the Corporate &
Institutional Banking division

Group Management Report

The Foundations of the Group

The Group Business Model

Structure and Management

The HSBC Trinkaus & Burkhardt Group currently comprises a group of twelve active companies, the parent company being HSBC Trinkaus & Burkhardt AG. The HSBC Germany brand is used in our external media profile, meaning the HSBC Trinkaus & Burkhardt Group.

HSBC Trinkaus & Burkhardt AG

Internationale Kapitalanlagegesellschaft mbH Düsseldorf	HSBC Global Asset Management (Deutschland) GmbH Düsseldorf	Grundstücksgesellschaft Trinkausstraße KG Düsseldorf
HSBC INKA Investment-AG TGV Düsseldorf	HSBC Global Asset Management (Österreich) GmbH* Vienna	Trinkaus Private Equity Management GmbH Düsseldorf
HSBC Transaction Services GmbH Düsseldorf	HSBC Global Asset Management (Switzerland) AG Zurich	HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH Düsseldorf
HSBC Operational Services GmbH Düsseldorf	HSBC Trinkaus Real Estate GmbH Düsseldorf	

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Lastly, 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 Boards, Boards of Directors and Advisory Boards.

Notwithstanding their legal independent status, all companies are managed within the framework of an overall strategy.

HSBC Germany founded HSBC Service Company Germany GmbH in the financial year. From 2021 onwards, the company will provide services for institutions within the meaning of section 1b of the German Banking Act (KWG), as well as capital management companies within the meaning of the German Investment Code (KAGB) and comparable companies in the European Economic Area. These services comprise support services in our wholesale business, as well as other middle office and general operations activities previously provided by our subsidiary HSBC Transactions Services GmbH primarily for HSBC Trinkaus & Burkhardt AG. The securities services currently provided by HSBC Transactions Services GmbH for internal and external customers will also remain within the company in the future.

We had a total of 2,911 employees at the end of 2020, as compared to 3,083 at the end of the previous year. This represents a decrease of 5.6%. In addition, we were also paying retirement, widow's and orphan's pensions to 605 recipients, as compared to 597 at the end of the previous year.

* The company has gone out of business but is still in existence.

The Business Divisions

The Bank is divided into the following segments: Private Banking & Asset Management (PB & AM), Commercial Banking (CMB), Global Banking & Markets (GB & M) and Corporate Centre/Consolidation (CC/Consolidation). Commercial Banking is responsible for the business with corporate SME customers. Aside from lending and deposit products, we offer a comprehensive domestic and foreign payment transactions service (payments and cash management). We also provide sophisticated specialised services such as interest rate and currency management, as well as the international business in conjunction with HSBC Group.

In addition to the large international corporate customers and institutional customers, Global Banking & Markets also includes the Capital Financing and Markets activities, as well as HSBC Securities Services. Apart from the lending business and investment banking, Capital Financing mainly includes the origination function on the primary market, while Markets comprises the distribution and trading activities for capital market products on the secondary market. HSBC Securities Services comprises custody, clearing and custodian bank services, as well as being responsible for fund administration within the Group.

In addition to asset management and advisory services, Private Banking also includes facilities such as advice on special asset structuring, execution of wills and Family Office services.

Asset Management comprises the development and distribution of fund and advisory concepts for institutional customers, corporate customers and financial intermediaries. Together with other HSBC Group Asset Management units, we offer a strong product range which competently covers all relevant asset classes.

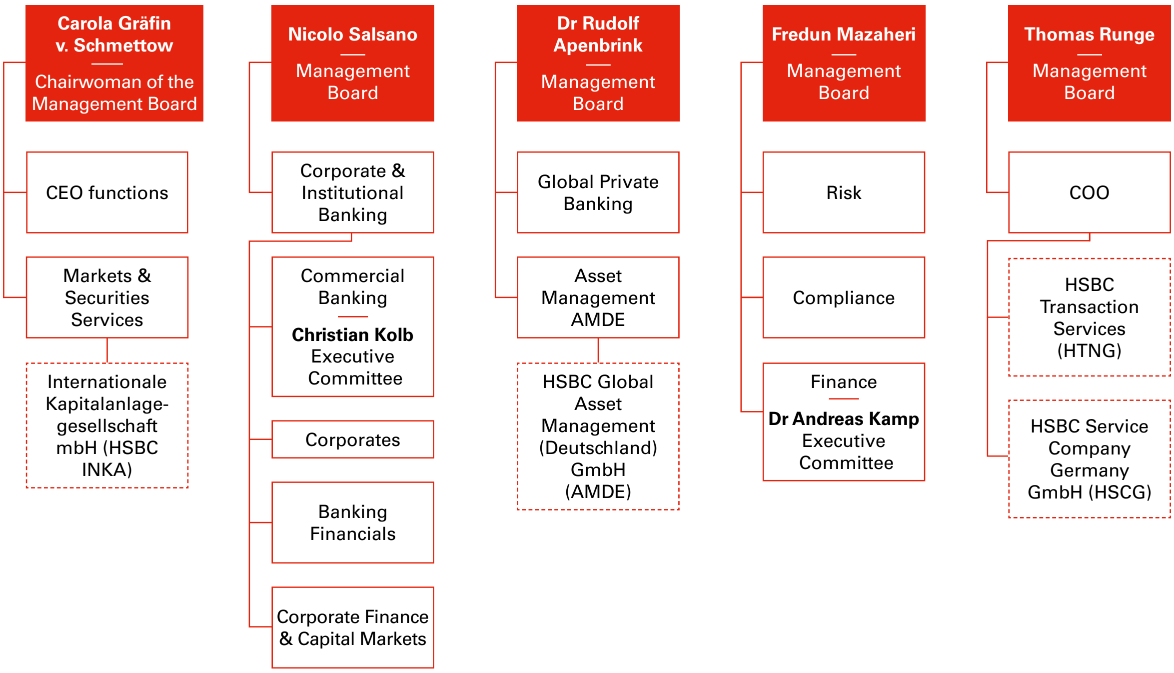
Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas.

The responsibilities and composition of the Management Board changed in 2020. Further changes are planned for 2021. Chief Operating Officer (COO) Thomas Runge was appointed as a full member of the Management Board by the Executive Committee with effect from 1 June 2020. Jan Wilmanns, the Management Board member responsible for Global Markets/Corporate Customers and Global Markets/Institutional Clients, left the Management Board with effect from 30 June 2020. Carola von Schmettow took over responsibility for the areas for which he was responsible.

Nikolas Speer will become the new Chief Risk Officer (CRO) with effect from 1 March 2021. He succeeds Fredun Mazaheri, who leaves the company at the end of February. Chief Financial Officer (CFO) Dr Andreas Kamp will also move up to become a full member of the Management Board with effect from 1 March 2021. He has been the Chief Financial Officer since June 2019.

Dr Michael Schleef has been Co-Head Commercial Banking (CMB) alongside Christian Kolb since 1 January 2021. From 1 April, he will be solely responsible for the business division with the rank of an Executive Committee member. Christian Kolb will leave the company at the end of June 2021.

Management Board



As at: January 2021

Overview of our Strategy

Business strategy

The consequences of the coronavirus crisis – which are particularly evident in rising loan defaults as a result of a historic economic slump, as well as in increasing liquidity needs and increasing volatility – confront the banking industry as a whole with a challenge. The ongoing low interest rate phase and smouldering international trade conflicts are further exacerbating the economic conditions.

There is a demand for sustainable business practices based on a sustainable business model. This requires investment in future viability. With the purchase of the LBBW shares and the acquisition of minority shares in connection with a squeeze-out, the HSBC Group increased its share in HSBC Germany to 100%. By way of this investment, the Group has highlighted the importance of the German market for its global business model. It is also a logical step in the Bank's transformation from Trinkaus to HSBC Germany, which will enable us to simplify many processes, reduce complexity and strengthen our position in the Group.

HSBC Germany is well positioned as a locally strong commercial bank in combination with the international service capacity and capital strength of the HSBC Group. Our strategic orientation as a "Leading International Bank" also paid off in 2020, a difficult year for banks. With a rating of AA- (Outlook Negative) from Fitch Ratings agency, HSBC Germany is a comparatively very well-rated institution on the market. According to the rating agency, HSBC has solid profitability, strong asset quality, a strong financing and liquidity position and a solid capitalisation above the minimum regulatory requirements.

The German banking market remains highly competitive. The trend towards the platform economy and innovations from the FinTech sector is already bringing about lasting changes in customer behaviour. Efficient digital solutions for traditional banking products are putting pressure on margins despite rising transaction volumes. The growing interest of foreign service providers in the German market is stepping up competition additionally.

In order to adequately meet these challenges, a strategy update was adopted in June 2019 with the "Country Strategic Plan 2023", which, in addition to the consistent continuation of the "Leading International Bank" strategy, focuses in particular on process optimisation and cost savings. The "Germany Transformation" programme announced in autumn 2020 accentuates these core elements. The focal points of the strategic orientation are now as follows:

- Expansion of the Leading International Bank position: HSBC Germany will continue its return-oriented growth. The HSBC Group's profitable business is to be further expanded among globally-oriented customers in Germany. We will consistently focus on customer relationships that support this international business and whose profitability meets our minimum requirements. The expansion of the event business and our historical strength in fee-based business support us in an environment marked by negative interest rates.

- Optimising the use of our capital:
  We will continue to consistently optimise our portfolio of risk-weighted assets and invest them selectively in profitable and strategically relevant customer relationships.

- Transaction Banking Transformation, in other words expansion of the Global Trade and Receivable Finance (GTRF), Global Liquidity & Cash Management (GLCM) and HSBC Securities Services (HSS) products: In GLCM, the range of services is to be provided through an innovative IT infrastructure to enable new mandates to be acquired for the HSBC network. Upgrades to the new receivable finance system are geared towards expanding both the local market position in GTRF and the role as a pan-European hub for business. At HSS, further growth is set to be bolstered by lighthouse projects in Custody and Business Process Outsourcing.

- Improving operational efficiency:
  Optimising processes while cutting costs is intended to contribute to improving operational efficiency. This is to be achieved by means of the initiated change to a uniform Group IT infrastructure and through a consistent move to Group processes and Group systems wherever possible.

- Processes are being consistently optimised in order to relieve both the customer side and the functional areas of the burden of standardised administrative tasks while reducing costs at the same time. Steps towards rationalisation and increasing efficiency have already been taken by means of nearshoring to the HSBC service centre in Krakow. We will consistently examine further opportunities for nearshoring.

The successful arrangement of business between the divisions shows that we can leverage the potential of a customer relationship and expand the benefits for the customer with our product diversity and expertise. The Bank's balanced business model is a further success factor. The WPB Business Line's Private Banking and Asset Management activities are important pillars of the overall strategy. They support the business model, for example by providing stable funding, and require only a limited equity commitment to generate returns. What is more, important customer relationships are being established in Private Banking with business approaches in many areas of the Bank. Asset Management is an important element of the service portfolio, in particular for the Bank's institutional customers.

HSBC Germany will remain a key pillar in Wholesale Banking at HSBC Europe and leverage the strong position in the HSBC network to generate even more international and intra-European business.

The profitability of global customer relationships is a key factor from the HSBC Group's perspective, and we take this factor into account in managing the Bank. Global profitability is the basis for local business with German customers. As one of eight "International Markets" of the HSBC Group, we are a substantial part of the overall strategy and important in our contribution to the HSBC Group revenues here, as well as a strategic link to German corporate and institutional customers.

The long-standing and trusting business relationships with our customers, as well as their positive feedback on our strategy, strengthen our conviction that we are on the right track. This gives us the confidence to continue along the path we have embarked upon. Our employees look forward extremely positively to the future of HSBC Germany, as in the previous year.

Our success remains based on:

- our stable foundation of values such as reliability, openness and solidarity with society and each individual,

- our strong capital base, also with respect to future regulatory requirements,

- our long-standing and motivated staff,

- our products and services, which meet with our customers' satisfaction, and

- our integration into the HSBC Group.

In doing so, we are shaping our future success in the spirit of our more than 230-year tradition.

The Control System

1. Explanation of the control system

HSBC Trinkaus & Burkhardt has an integrated control system covering the Bank and all subsidiaries. This system serves firstly to formulate clear operational and strategic financial goals. Secondly, it identifies possible budget deviations and undesirable developments so that suitable countermeasures can be introduced in time.

In addition to the highly aggregated ratios presented below, the Bank also has granular ratios and instruments which are used for detailed planning and control. These include, for example, ratios for managing liquidity and customer costing in which all banking transactions with each individual customer are recorded and evaluated.

After the determination of the appetite for risk as the basis for the annual operating budget by the Management Board, these and other ratios are discussed in detail in the Risk Committee of the Supervisory Board and brought to the attention of the entire Supervisory Board.

2. Specification of the ratios

In keeping with the concept of the HSBC Group, HSBC Trinkaus & Burkhardt's control system is geared towards the following ratios with respect to the analysis of the strategic success factors and the decisions over efficiency, profitability, liquidity and risk, alongside pre-tax profit which can be derived from them:

- Cost efficiency ratio
- Return on equity
- Liquidity coverage ratio
- Tier 1 ratio
- Regulatory capital ratio

3. Explanation of the calculation of the ratios

Cost efficiency ratio
In order to calculate the cost efficiency ratio, administrative expenses are put in relation to the Bank's income (net interest income, net fee income, net trading income, profits and losses from the sale of financial assets measured at amortised cost, net income from other financial assets mandatorily measured at fair value through profit or loss, net income from financial assets and net other income/ expense).

Return on equity
The return on equity is calculated by putting pre-tax profit in relation to average shareholders' equity over the last 15 months (including the average consolidated profit available for distribution and excluding the average valuation reserves). As the Bank's IFRS capital has also contained an additional capital component with the Additional Tier 1 capital since 2016 that is not attributable to the shareholders, both pre-tax profit and average shareholders' equity will be adjusted for the effects on the ratio resulting from the Additional Tier 1 capital.

Liquidity coverage ratio
The liquidity coverage ratio puts highly liquid assets in relation to the overall net outflow of funds in the next 30 calendar days.

Tier 1 ratio
The Tier 1 ratio expresses consolidated regulatory Tier 1 capital as a percentage of risk positions (risk-weighted assets, market risk equivalent and operational risk).

Regulatory capital ratio
The regulatory capital ratio expresses regulatory capital (Tier 1 capital and Tier 2 capital) as a percentage of risk positions (risk-weighted assets, market risk equivalent and operational risk).

Staff*

We had a total of 2,911 employees at the end of 2020, compared to 3,083 at the end of the previous year. This represents a decrease of 5.6%. In addition, we were also paying retirement, widow's and orphan's pensions to 605 recipients, as compared to 597 in the previous year.

Talent Management

Targeted and transparent development of our employees is a core element of our personnel strategy.

The ongoing development of our employees' skills plays an important role here, as our employees are our most valuable resource. Our aim is to develop our employees so that they are able to make use of their full potential. We want to gain a competitive advantage and achieve our strategic targets.

We regard succession planning as a central element of our corporate development. Corresponding plans and targeted development measures are therefore regularly discussed and reviewed by the Management Board. Alongside risk analysis, the roles and competencies that will be necessary in future are discussed so as to promote the individual development of potential successors by means of individually tailored measures.

In addition, we identify high-potential senior managers every year. Performance and potential criteria throughout the Bank, as well as transparent management processes, form the basis for this. In addition to transparent processes, the focus is primarily on regular and personal discussions between employees and supervisors in order to determine development measures in a timely manner.

As an international company we place particular importance on cross-divisional and international development. That is why we promote the short- and long-term secondment of employees and senior managers to other locations and divisions.

Talent Development

We see professional and social skills, conduct which is in keeping with the Bank's values and the special commitment of our employees as a decisive competitive advantage. Thanks to targeted talent development, we are in the position to constantly offer our customers major expertise and high quality with respect to our advisory service.

We offer a wide range of local and global advanced training measures and learning resources. The HSBC University programme is continuously adapted to the latest learning technologies and developments. Staff and managers can choose from an extensive range of formal and self-learning opportunities via a mobile app at any time. We place a strong focus on the development of "future skills" in order to prepare our employees and ourselves as an organisation for the changes in the world of work in a way that is geared towards the future.

Depending on their requirements, we help our employees to advance by offering them individual product- and subject-specific training as well as targeted measures for the further development of interdisciplinary expertise such as language courses to prepare employees for secondments abroad within the HSBC Group. This includes promoting bachelor's and master's degree occupational study courses and selected specialised training courses.

The offerings for our managers have been significantly expanded. Existing programmes for the development of personal leadership skills through training or coaching are supplemented with in-house events, peer learning formats and individual advisory services.

*unaudited

Our internal experts work all over the world with HSBC Group colleagues to ensure that advanced training measures are designed and structured to be as professional and relevant as possible. Offers are updated on an ongoing basis and aligned with the local and global business strategy. In order to provide a professional service, we work together with selected trainers and contractual partners who are familiar with the Bank's requirements and whose excellent qualifications guarantee the successful implementation of the measures, as well as their needs-oriented preparation and fine-tuning.

Training Activities

We take our responsibility to provide training extremely seriously and are delighted to see that 26 trainees and dual students are working at our Group. The practical dual study and occupational study courses are also held at the FOM University of Applied Science. Our young talents are split across our training programmes as follows:

	Number of trainees and dual students
Office management trainees	10
Office management trainees with Bachelor of Arts study course in "Business Administration"	4
Dual students with Bachelor of Arts study course in "Banking & Finance"	12

We are proud to report that a total of seven (former) trainees at the HSBC Group successfully completed their training in 2020. Thanks to the very good results that our trainees achieved in this year's final examinations, we have received an award from the Düsseldorf Chamber of Commerce and Industry for the excellent services we provide in our professional training for the 14th year in succession.

Diversity & Inclusion

At the HSBC Trinkaus & Burkhardt Group, we see diversity and inclusion as a key factor to our success. We are convinced that a workforce that is defined by diverse thinking and abilities helps us to minimise risks and, above all, to find innovative solutions. Our objective is to create a corporate culture in which each individual can fulfil their full potential.

The promotion of female junior and senior management staff is a key element of our diversity and inclusion strategy. Important starting points are to continue furthering our talent development activities, in particular identifying female talent early on and the targeted promotion of women with development potential through leadership training and individual development plans. Additionally, the HSBC Trinkaus & Burkhardt Group participates regularly in special recruitment fairs for women in order to get into contact with female talent early on and to position HSBC on the market as an attractive employer.

Awareness of unconscious bias plays an important role in achieving an inclusive corporate culture. By implementing targeted measures to raise awareness of stereotypes and unconscious bias we would like to ensure that employees are able to work somewhere where they can fully realise their diverse potential.

HSBC supports its employees in actively engaging in networks to share their experiences of Diversity & Inclusion and its role in everyday work. Through our "HSBC. Balance Germany" Employee Resource Group, we have established a successful network that is committed to promoting gender equality at HSBC. Carola von Schmettow (CEO) is involved here as the patron. Another Employee Resource Group, "HSBC

Pride-Deutschland", has also been set up. With Fredun Mazaheri (CRO) as the executive sponsor, this network is dedicated to creating a LGBT+-friendly working environment. The networks all follow the same aim of establishing an open and tolerant working environment in keeping with the HSBC values in which each and every employee can fulfil their full potential.

By setting up three company kindergarten facilities, cooperating with the external service provider "PME Familienservice" and offering flexible employment options, we are continuously working on creating an attractive bank for employers and promoting the work-life balance.

The examination of the salary structures carried out every year has shown that male and female employees with comparable qualifications, activities and seniority are basically also paid the same. Isolated cases were reviewed individually and adjusted where necessary within the scope of the compensation process.

An average of 1,309 female and 1,788 male employees were employed in 2019 (previous year: 1,275 female and 1,720 male employees). There was an average of 377 (previous year: 352) female and 41 (previous: 37) male part-time employees.

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.

Sustainable Corporate Management*

For HSBC Germany, sustainability means establishing business activities for the long term and taking social, ecological and economic aspects into consideration in the decisions we make. Both sustainable and economic growth can be promoted as a result.

Our Responsibility

Sustainability is a cornerstone of our strategic orientation. We support companies in expanding their business activity and provide for the welfare and positive development of communities, thus doing justice to our responsibility as an international bank. Our success puts us in the position to meet our stakeholders' requirements: as a reliable business partner for our customers, as an attractive employer providing training for our employees, as a solid and profitable investment for our shareholders and as a significant and reliable taxpayer of the City of Düsseldorf, with which we have been linked since our foundation in 1785.

The COVID-19 pandemic has sharply highlighted the importance of resilient business models. Our business model, which is geared towards sustainability, has proven itself in this period. We believe sustainable finance plays a central role in ensuring stability on the financial markets by taking social, environmental and economic aspects into consideration in company management. The growing significance of sustainable banking services, and therefore the associated requirements made of its employees, has already been a central topic for HSBC for some time. The Corporate Sustainability (CS) team, which coordinates our entire sustainability activities centrally and reports directly to the CEO, was therefore established in Germany in 2008. We finance economic growth, promote international trade and believe that governments, companies, the financial system and civil society have to work together in combating climate change and in their sustainability efforts.

We believe it is necessary more than ever today to pay particular attention to developing those abilities, business innovations and climate-efficient solutions that are urgently required to lastingly secure prosperity for all. For HSBC Germany, the following are the most important elements of sustainable growth that we can influence:

Sustainable Financing

As one of the world's largest financial institutions, HSBC aims to be a leading, global partner in the transition to a carbon-free future. In our view, additional efforts are needed to achieve the Paris Climate Agreement. For this reason, HSBC has significantly expanded its climate targets and committed to bringing its emissions to net-zero by 2050 at the latest. In this way, we are adjusting our financed emissions, i.e. the CO_2 emissions of our customer portfolio (known as Scope 3 emissions), to the Paris Agreement target. Net-zero is a promise that entails far-reaching measures. It supports the drive to stop global emissions and is our seal of approval for climate leadership. HSBC aims to further strengthen its leading role in the transition to a low-carbon economy and help its customers achieve this ambitious goal. HSBC also aims to be net-zero in its operations (known as Scope 1 and 2 emissions) and supply chain by 2030. The funds that HSBC aims to make available for customers who require sustainable financing and investment for their transformation path by 2030 amount to up to USD1 trillion. HSBC has established itself as a leader in the transition to a low-carbon economy. In 2017, the Group committed to providing USD100 billion for sustainable financing and investments by 2025.

We continuously launch award-winning products and have repeatedly been named "Best Bank for Sustainable Finance". Sustainable growth requires stable and responsible international trading networks. We work together with our business partners and with charitable organisations to continue to promote business practices to protect the environment and human rights, as well as supporting the transformation throughout the entire economic system.

* unaudited

Abilities for the Future

A rapidly changing world also requires special expertise for the labour market and knowledge with regard to financial topics. We pass on the necessary knowledge and understanding of financial matters to our customers and partners so that they can be successful in the globalised economy. We empower our employees to master the challenges of the globalised working world.

The Bank's corporate sustainability approach comprises sustainable responsibility in the following areas:

Corporate Sustainability at HSBC

Corporate responsibility as an integrated corporate strategy

Sustainable Finance

Greening financial flows to make the transformation to a low-carbon economy a success

Sustainable Financing

- Sustainability Risk Rating in the HSBC lending process
- Sustainable financial products, issue of "green" capital market products for issuers (including green bonds, notes)

Sustainable Investing

- Sustainable investment products for private and institutional investors
- Comprehensive research in the area of ESG (especially climate change, corporate governance, ESG integration, SDG)

Sustainable Networks

- Support in financing sustainable global supply chains, Global Trade & Receivable Finance)
- "Fashion Revolution" series with WHU Düsseldorf and changeroom.org

Community Investing/Future Skills

Equip our customers, society and employees with the knowledge and skills to succeed in the global economy

Financial Capability

- Educational campaign to teach the topic of business in schools ("HSBC School Project")
- Lecture series "Sustainable Finance" with HSD
- "Text heroes" project with the Rheinische Post

Employability

- "Die Arche Kinderstiftung" youth welfare centre in Düsseldorf-Wersten
- HSBC Trinkaus Jugend und Bildung e. V.
- Deutschlandstipendium Scholarship with HHU

Social Entrepreneurship

- Support in the development of (social) entrepreneurs and their access to international markets
- Further projects in the pipeline

Sustainable Operations/REDUCE

"Green power" – reduction of electricity consumption and CO_2 emissions – waste avoidance (HSBC thermos cups) – sustainable purchasing guidelines – awareness-raising among employees

Nature-Based Solutions

Sustainable Financing

ESG criteria continued to gain importance in the past year and are playing an ever greater role in our capital market activities. The sustainable bond segment is becoming more and more significant for the public sector, corporates and institutional investors, as investors very often no longer only weigh up their investment decisions against pure risk-return criteria, but also take social and environmental criteria into consideration. HSBC takes on a leading role in this segment and has already acted as lead manager on the market for a large number of Green, Sustainable and Social Bond transactions. HSBC was able to further improve its position in 2020 in the global league table and is one of the leading banks worldwide in this segment. In the German market, HSBC acted as lead manager in numerous mandates for public-sector customers, companies and banks, including NRW.BANK, Volkswagen, Adidas and Berlin Hyp.

Furthermore, HSBC is represented in numerous industry associations, is a founding member of the ICMA Green Bond Principles Executive Committee and advises institutions worldwide in order to develop the market segment for sustainable bond issues substantially further. This also includes establishing the Green Loan Principles in March 2019, which are based on the recommendations of the ICMA and the Loan Market Association (LMA) for supporting a consistent methodology across the entire green loan market.

We believe reducing global CO_2 emissions is the most important challenge for society. We therefore want to develop strategies and show opportunities for promoting the change to a low-CO_2 economy together with our customers. With the HSBC Climate Change Centre of Excellence, we also have a team of specialists whose aim it is to offer the best analysis on climate change and its impact on economies, industries and sectors. It has received several awards in recent years from the Thomson Reuters Extel Survey in the area of sustainability research. The magazine Euromoney once again awarded HSBC the title "World's Best Bank for Sustainable Finance". The Euromoney Awards for Excellence, which were established in 1992, are among the best-known awards in the financial industry. This year, HSBC also managed to win the global titles of "Western Europe's Best Bank for Sustainable Finance" and "Asia's Best Bank for Sustainable Finance". In order to be perceived to an even greater extent by the global public as an opinion leader, HSBC publishes regular reports and articles on the issue of sustainable finance through the Centre of Sustainable Finance, which was set up as a global think tank in 2017.

Sustainability with Respect to Lending

We basically examine all loan commitments and applications with respect to sustainability risk. Since 2004, we have been applying a standardised worldwide Sustainability Risk Rating which provides for regulations for certain industries such as agricultural commodities, mining and metal, chemicals, energy, defence, forestry and water. The HSBC Sustainability Risk Policies and their implementation are examined regularly and updated if required. The HSBC Agricultural Commodities Policy, which was introduced in 2014, was last revised and its content enhanced in February 2017, thus standardising the NDPE guidelines, which are becoming increasingly common in the palm oil supply chain. NDPE stands for "No Deforestation, No Peat and No Exploitation". For this purpose, HSBC has joined the Banking Environment Initiative, which is convened by the Cambridge Institute for Sustainability Leadership. It has also joined the Tropical Forest Alliance, which is hosted by the World Economic Forum and brings together governments, NGOs and companies to reduce tropical deforestation, improve the livelihoods of smallholder farmers, conserve natural habitats and protect tropical landscapes. Since 2011, HSBC has massively curtailed the financing of new coal-fired power stations and has de facto given up funding thereof in 78 developed markets. This policy has applied to all countries worldwide since April 2018, with the exception of Bangladesh, Indonesia and Vietnam, where a transitional period of five years in total still applies, provided there are no valid alternatives. In Bangladesh, for example, coal and gas are still the only sources of energy that are realistically available to supply the population with electricity. Household electrification in Bangladesh has lagged behind for a long time. While the national electrification rate was still at around 50% in 2012, all 165 million inhabitants are slated to have access to electricity by 2021. It is currently possible to supply about 85% of the people with electricity.

The demand for energy is a balancing act for the Bank. Two of the United Nations' sustainable development goals must be combined: providing people with electricity (SDG 8) and reducing the negative impact on the environment (SDG 7). Here the Bank pursues the strategy of supporting the energy companies by way of partnerships to extend the renewable energies business. Since 2003, we have undertaken to observe the Equator Principles (EP), which serve as international standards for the management of social and ecological risk in project financing. The optional rules comprise ten criteria based on the ecological and social standards applied by World Bank and the International Finance Corporation (IFC) and are taken into consideration for project volumes of USD10 million upwards. We offer our employees training and advanced training on an ongoing basis relating to the assessment of sustainability risk. Special sustainability risk managers (around 80 globally) monitor the observance of these processes. HSBC has been a member of the Task Force on Climate-related Financial Disclosure (TCFD), set up by G20 members, the Bank of England and the Financial Stability Board, since 2017. HSBC has based its financial reporting on TCFD recommendations ever since and reports on what it considers to be material financial risks and opportunities arising in relation to climate change. At the same time, we have augmented customer dialogue within the scope of loan commitments and applications with the addition of "transition risks" – in other words, risks associated with the transition to a carbon-free economy. HSBC has taken this step initially with a handful of customers in order to document the transitional risk our customers are currently exposed to.

Since 2019, all customers from exposed sectors have been requested to supply details for the "Transition Risk Questionnaire". The sectors that are most affected by climate change include the automotive, oil and gas, energy, chemicals, metal and mining and construction industries. This year, the agriculture, real estate, transport and manufacturing sectors were added. HSBC started with around 700 customers worldwide, 90 of them from Germany. In Germany, a total of 140 customers are affected by transition risks. By maintaining constructive dialogue with our customers, we have the will and sense of duty to identify potential ways to achieve climate neutrality and improve our understanding of their climate protection strategies. For this reason, we have developed a questionnaire in collaboration with some of our customers.

The questionnaire allows us to determine which customers will have to adapt quickly to climate risks and where "stranded assets" could become a financial issue. Over the next few years, we will be expanding the review portfolio, as we need to be transparent about the sustainability risks on our balance sheet and learn how to deal with them.

Sustainable Investing

In our opinion, taking environmental, social and corporate governance criteria alike into consideration has a substantial influence on companies and can strengthen their competitive position accordingly. A sustainability analysis is therefore an integral part of the investment processes for our global Asset Management units. HSBC Global Asset Management already signed the "United Nations Principles for Responsible Investment" (UNPRI) in June 2006 and has therefore undertaken to take environmental, social and governance (ESG) criteria into consideration when making investment decisions across all asset classes. By signing the Montréal Pledge in 2015, HSBC Global Asset Management has undertaken to report the carbon intensity of the portfolios. We are determined to further develop responsible investment into an integrated ESG. For investors who wish to invest according to specific ESG criteria, we offer a broad range of sustainable equity and bond concepts. In doing so, we draw on the services of well-known analysis specialists and rating agencies in the field of ESG. In addition to best-in-class approaches, we also offer a large number of thematic solutions, allowing us to meet our customers' needs and requirements on an individual basis. Our global Asset Management units also take exclusion criteria into account. Since 2010, companies associated with cluster munitions and anti-personnel mines have been avoided and excluded across the investment universe. Further exclusion criteria can be implemented individually at the customer's request.

In addition to our own due diligence checks, we also use the services of renowned external organisations. Our guideline in respect of passive investment products is also reviewed continually, and all exchange traded funds (EFT) and the associated indices we offer now undergo controversial-weapon screening so as to avoid the financing of weapons of mass destruction. Our own HSBC ESG ETFs pursue both strict exclusions, a good ESG score and an improvement in climate targets by reducing investments in fossil fuels and CO_2-intensive companies.

We are currently expanding our sustainable product range and will offer a number of new funds in the future with which investors can promote nature conservation and combat climate change while still achieving attractive returns. To this end, HSBC Global Asset Management and the Pollination Group, an investment and advisory firm specialising in climate issues, intend to establish a new asset management company: HSBC Pollination Climate Asset Management. The aim of the joint venture, which is still subject to regulatory approval, is to create the world's largest asset management company for natural capital.

In addition, we offer comprehensive equity research on listed companies from the solar, wind, waste management and water industries segment (SRI/Renewables). Since 2006, we have been organising the annual "HSBC ESG" conference in Frankfurt am Main, which has since developed into the largest investor conference in Europe with the focus on ESG. We also organise sustainability roadshows, which enable well-known SRI companies to get into contact with international investors on the topic of sustainability.

Back in March 2016, HSBC was given the approval to cooperate with the United Nations Green Climate Fund – a climate fund that provides funding for climate projects in emerging markets. Accreditation is preceded by a strict examination of the environmental and social standards of the institutions involved in these projects.

Social Responsibility

Alongside the responsibility in our core business, social commitment is the second pillar of our integrated corporate sustainability strategy. HSBC Trinkaus & Burkhardt offers its staff numerous voluntary social benefits. In order to improve the reconciliation of work and family obligations, we support flexible working models and work with a family service which helps find external care for children or elderly relatives, for example, and offers life situation coaching. The offer for employees with families is rounded off by three company kindergarten facilities. Educating young people is a key feature of our social responsibility. However, 2020 confronted us with particular challenges. Through the HSBC school project, we help to provide knowledge of financial matters, which is indispensable in today's society. Our employees are regularly available as voluntary "Experts in the classroom" at general-education schools in Düsseldorf and the cities in which our branches are located. They help young people set up their own companies and are also involved in the "JUNIOR-Schülerfirma-Projekt" initiative organised by the Institut der deutschen Wirtschaft Köln JUNIOR gGmbH. At Hochschule Düsseldorf, University of Applied Sciences, we offer a lecture series on sustainable finance at the Faculty of Business Studies and seek to establish a profile as a regional employer. In order to extend our measures in this area, we are offering young people solid access to journalism and economic knowledge by supporting the Rheinische Post newspaper's interactive "Text heroes" project. Pupils in year 8 receive the daily newspaper Rheinische Post over a period of six weeks. Accompanying materials are provided for the lessons. While learning about media relations and qualitative reporting, the pupils are also given the opportunity to practice at being young journalists and write their own articles for the Rheinische Post. The Bank has also been involved since 2008 as one of the main sponsors of the youth welfare centre "Die Arche Kinderstiftung e.V." in the Düsseldorf district of Wersten. "Die Arche" is supported by our employees who help with the organisation of homework supervision, parties and excursions, one-off campaigns and donations in kind. All this has only been possible to a limited extent in digital form this year.

Our social commitment is aimed primarily at giving young people a perspective. To focus our efforts in this area, we set up the charitable association HSBC Trinkaus Jugend & Bildung e. V. located in Düsseldorf in 2014. One of the association's initiatives is the scholarship programme in collaboration with Heinrich Heine University, which aims to support university graduates.

Ecological Responsibility

In order to keep the impact of our own business operations on the environment as low as possible, the Bank relies on processes that reduce environmental pollution. Integrated in the HSBC Group's environmental management system, we are steadily reducing our emissions in line with targets in order to reach our net-zero target by 2050 at the latest. We see our environmental protection measures as setting an example for our employees, customers and other stakeholders. We pursue reduction targets in respect of waste management, energy consumption, CO_2 emissions and facility management. In addition, special provisions apply in terms of environmentally friendly mobility, with preference given to rail travel for business trips in order to reduce CO_2 emissions and particulate pollution. Company season tickets for employees also support environmentally friendly mobility. The company car directive sets clear incentives for a more ecological vehicle choice in company car leasing through a bonus-malus model and the option to order electric vehicles. Since 2018, HSBC's pool cars have been successively replaced by significantly more fuel-efficient models with lower CO_2 emissions so as to reduce average CO_2 emissions in the long term. In addition, we also offer our employees bicycle schemes as an environmentally friendly alternative to cars and public transport. Since its introduction in mid-2019, 149 employees have signed up for the bike leasing scheme. We also use sources of renewable energy for our power supply, wherever possible, and use 100 % green power at our head office. The environmentally friendly disposal of old electronic equipment and the recycling of reusable materials, as well as the exclusive use of FSC-certified paper, also contribute to saving resources. Our employees have been using thermos cups since 2017, and the use of single-use cups was done away with in mid-2019. We also look for solutions that our customers can use digitally and offer them the use of an electronic post box for their account statements. For HSBC employees, this has also applied to the sending of salary slips since the middle of the year.

The global project partnership launched in 2012, "HSBC Water Programme", was concluded in 2019. Alongside Earthwatch, WaterAid and WWF were project partners of the "HSBC Water Programme", which aimed to improve the lives and livelihoods of millions of people all over the world and provide the employees with a greater understanding of the relevance of the sustainable use of global water resources. The joint venture with the Pollination Group will drive forward natural capital issues such as sustainable forestry and agriculture, water supply or nature-based biofuels, as well as projects that reduce the amount of carbon in the atmosphere and promote the shift to a sustainable economy. The funds will be invested in emerging and developed markets, thereby covering a broad range of themes. Two funds are to be launched next year.

Reporting

The HSBC Group publishes its sustainability activities as part of the Strategic Report together with the Annual Report of the HSBC Group at http://www.hsbc.com/our-approach/measuring-our-impact. Since 2017, HSBC had included climate-related risks in the voluntary reporting, thus reflecting our conviction that climate-related risks and opportunities are already occurring now and will materialise to an even greater extent in the future. To counter this risk, the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) expert commission published the recommendations for a standardised reporting framework for climate-related financial disclosures in June 2017. The objective is to enable companies and investors to quantify the financial impact of climate change on the business model and to strengthen the resilience of the business strategy. HSBC Germany is exempt from its own disclosure obligations, as the relevant local activities are reported to the HSBC Group, which draws up a non-financial Group report in line with EU Directive 2014/95/EU and makes it available to the public. The Bank has made a voluntary commitment to the following initiatives:

- Carbon Disclosure Project
- Diversity Charter
- Green Bond Principles
- Green Loan Principles
- Institutional Investors Group on Climate Change
- UN Environmental Programme Finance Initiative
- UN Global Compact
- UN Principles for Sustainable Insurance
- UN Principles for Responsible Investment

Corporate Sustainability at HSBC

HSBC supports the following initiatives and sustainability concepts:

Corporate environmental responsibility

- CDP
- RE100

Disclosures and Transparency

- International Integrated Reporting Council
- IIF Sustainable Finance Group
- SASB Sector Advisory Group
- Task Force on Climate-related Financial Disclosures
- United Nations and Global Reporting Initiative – Corporate Action Group on the SDGs

Global Asset Management

- Climate Action 100+
- Montreal Pledge
- Principles for Responsible Investing

Strategy and Public Affairs

- Banking Environment Initiative
- Energy Transitions Commission
- The Global Commission on the Economy and Climate
- Global Sullivan Principles
- World Economic Forum CEO Climate Leaders
- World Economic Forum Advisory Group – Building an Effective Ecosystem for ESG
- United Nations Environmental Programme Finance Initiative
- United Nations Framework Convention on Climate Change

Insurance

- UN Environment's Principles for Sustainable Insurance Initiative

Sustainability Risk Management

- Equator Principles
- Forest Stewardship Council
- Roundtable on Sustainable Palmoil
- Roundtable on Responsible Soy

Economic Report

General Economic and Sector-related Framework

Macroeconomic Developments

Due to the COVID-19 pandemic, the global economy is expected to have contracted in 2020 for the first time since 2009 and for only the second time ever since the end of World War II. The restrictions imposed to contain the pandemic led to an unprecedented collapse in economic output, especially in the first half of 2020, a development which no region or country was entirely able to escape. A strong recovery did set in after the weakening of the first wave of illness and the resulting easing, which was reflected in record growth rates, especially in the third quarter. However, this was not strong enough to compensate for the slump in the first half of 2020. In addition, the growth momentum slowed down again noticeably towards the end of the year and probably came to a complete standstill again as a result of the renewed lockdown measures triggered by the second wave of the disease, especially in Europe and North America. Overall, a global GDP decline of −3.7% is therefore to be expected for 2020, which would be a significantly stronger slump than after the global financial crisis in 2009.

Apart from mainland China – which, according to the latest data publication, is still reporting GDP growth of 2.3% (albeit after 6.5% in 2019) – almost all other major economies are likely to show negative annual GDP rates for 2020. The worst-affected countries will be those which have had to take tougher and longer lockdown measures and those that are heavily economically dependent on the service sector. In Europe, for example, Sweden has come through the crisis relatively unscathed, with an expected decline in gross value added of "only" 2.2%. By contrast, Spain, which depends heavily on international tourism, is expected to show a GDP decline of 11.0%. The German economy also suffered a severe setback, with a decline of 5.3% in GDP according to the preliminary estimate of the Federal Statistical Office for 2020. Nevertheless, the slump was comparatively moderate when compared internationally (Eurozone: −6.8%) and somewhat less severe overall than in the wake of the 2009 financial crisis (−5.6%). Europe's largest economy benefited not least from a more sustained recovery in the manufacturing sector in the second half of 2020, which largely compensated for the losses in the services sector following the renewed lockdown measures from October onwards.

In order to generally stabilise the economic situation and contain the long-term economic damage caused by the pandemic, fiscal rescue measures on an unprecedented scale were adopted by governments, not only in Germany. In addition to the granting of state-guaranteed loans, as well as direct payments to severely affected enterprises and households, generous aid for labour market measures such as short-time allowances and similar programmes were granted. The latter contributed significantly to the fact that, despite the global recession, official unemployment figures rose much less sharply and recovered more quickly than initially feared. However, a side effect of these fiscal policy support measures is a massive expansion of government debt, which has caused budget deficits in the US and the UK, among others, to grow to an estimated 14.9% and 18.3% of GDP respectively. At the European level, there was also the additional adoption of a €750 billion rescue package financed by joint borrowing under the leadership of the EU Commission. Of this €750 billion, €390 billion is to go to EU member states in the coming years as grants to help them overcome the pandemic economically, along with a further €360 billion in loans.

The fiscal policy measures were backed up by ultra-loose monetary policy. For example, the US Federal Reserve lowered the key interest rate from 1.75 % to 1.50% to 0.00% to 0.25% back in March. However, since the interest rate policy instruments for most of the other G10 currency areas were already essentially exhausted before the COVID-19 crisis, the central banks tried to keep interest and financing conditions low primarily by purchasing securities. To this end, the ECB alone opened the liquidity floodgates to an unprecedented extent with the launch of the €1.8 trillion Pandemic Emergency Purchase Programme (PEPP). These measures did help limit the yield premiums vis-à-vis Germany for the peripheral countries of the Eurozone, such as Italy, to a historically extremely low overall level, thereby indirectly improving the sustainability of public debt in these countries. Contrary to the fears of some analysts, these measures have not yet triggered an uncontrollably strong inflationary impulse. On the contrary, the core inflation rate in the Eurozone fell to a new all-time low at the end of 2020, while the general inflation rate has even remained negative since August. However, these developments are partly due to temporary special measures such as the temporary value-added tax reduction in Germany from July to December 2020. As a result, a noticeable increase was observed again in January. By contrast, based on the forward guidance given by the central banks, a tightening of monetary policy is hardly to be expected in the foreseeable future – despite an overall very positive economic outlook in the further course of 2021 in view of the prospects of comprehensive vaccination against COVID-19.

Developments in the Banking sector

Besides the traditionally strong competition in the German banking market, high regulatory density and low interest rates, economic development remains particularly challenging. Due to the COVID-19 outbreak, GDP fell by 10 % in the second quarter of 2020 compared to the previous quarter. This is the sharpest decline since the Federal Statistical Office began quarterly calculations for Germany in 1970. After the historic slump, the German economy grew again by 8.2 % in the third quarter compared to the previous quarter. But compared to the fourth quarter of 2019 – before the global COVID-19 crisis – GDP was 4.2 % lower in the third quarter of 2020. Even before the coronavirus crisis, the German economy was weakened. Bleaker outlooks for German economic growth against the backdrop of smouldering international trade conflicts are aggravating the economic conditions of globally-oriented banks. In addition, digital platforms are becoming increasingly important. This applies just as much to competition with new market participants as to competition among established financial institutes. When it comes to digital business models, which are exposed to heightened cyber risks, high-tech and secure IT infrastructure is a distinguishing feature.

- The ECB Governing Council decided on 16 July 2020 to leave the interest rate on main refinancing operations and the interest rate on the deposit facility unchanged at 0.0 % and –0.5 %, respectively, and to continue purchases under the emergency pandemic purchase programme totalling €1,350 billion. In December, the ECB Governing Council decided to increase the programme by another €500 billion. The measures are intended to contribute to the easing of the overall monetary policy stance and will be in place at least until March 2022. For this reason, no departure from the loose monetary policy is to be expected soon. The interest rate policy once again had noticeable consequences for the profitability of German banks in 2020, a sector which in Germany had traditionally generated its primary source of operating revenues in net interest income.

- The UK's decision to leave the European Union brings uncertainty for the financial sector and represents a risk for German exports. The trade agreement between the UK and the EU does not contain provisions for mutual market access in financial services. Future developments will therefore depend heavily on further regulatory and supervisory cooperation between the EU and the UK.

- COVID-19 has also had an impact on the banking market, mainly in the form of increasing volatility, expected rating migrations and defaults in the loan portfolio, increased liquidity needs, rising refinancing costs and lost earnings. Public authorities are counteracting this development both through monetary policy and government support measures (short-time working allowance, KfW programme).

- Strong competition in the German banking market remains a challenge, leading to greater pressure on profitability. Foreign banks in particular recognise Germany as an important economic location with strong export potential. They are expanding their local activities and focus frequently on the German corporate customer business. In terms of the number of employees, they have a notable presence on the German market; overall, international banks achieved higher growth than domestic banking groups.

- The structural deficits of the German banking market do not allow the majority of market participants to earn their costs of capital. The regulation of the financial sector, which requires that each institution examines its business model and adjusts rising costs to the lower level of earnings under the regulatory conditions, continues to be strict and also remains of major significance.

- The market environment will remain demanding and challenging for German banks in the next few years as well. GDP is not expected to reach pre-crisis levels before 2022. Each and every market participant must react to this environment with a solid strategic orientation, a clearly defined business model, streamlining of the balance sheet, effective restructuring and cost reductions, as well as investments in efficient IT processes.

HSBC Germany in the Current Environment

In view of the many challenges in the banking market and the general economic environment, the goals of the medium-term strategic planning (Country Strategic Plan 2023) were reviewed. This was also carried out with a view to the HSBC Group's European Transformation Programme and an assessment of what contribution HSBC Germany can make to this programme. As a result, it was noted by the Management Board that the Country Strategic Plan continues to feed into the Group's objectives but requires a stronger focus on return-oriented growth, cost reduction and a consistent shift to Group processes and Group systems in order to increase the speed of implementation of the strategic plan.

Beyond the concrete measures, the six basic principles of our business orientation also continue to apply:

- We concentrate on the target groups of global corporate customers, institutional customers and high net worth private customers and would like to expand our activities with existing and new customers 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 customers. The customer is at the centre of our decisions. We attach great importance to personnel continuity in the support of our customers.

- Our trading activities serve primarily to support the customer 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.

- Comprehensive know-how for innovative and customer-related solutions is our strength, allowing us to realise added value for the customers and for the Bank. The basis of every good customer relationship is nonetheless the careful, flexible and service-oriented execution of standard transactions, including lending, and is therefore of major importance for us.

- We are continuously expanding our range of services. Our Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) subsidiary has strengthened its market position in fund administration as a master capital management company (Master-KVG). Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank services and global custody services, as well as in asset management, with HSBC Global Asset Management (Deutschland) GmbH.

- 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 networks in 64 countries worldwide.

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

- We must offer our customers unlimited access to the global HSBC network, without having to make compromises in terms of their requirement of individualised servicing and professional advice.

- We must continue to focus the business relationship with our customers on trust and sustainability. Only on this basis can customers and advisors work together to find optimum solutions in view of the 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 customer-friendly manner.

- We must invest in the qualification of our employees through targeted training and advanced training measures in order to do justice to the growing complexity and internationalisation of our business. We must be able to thrive on a sustainable basis in a challenging market environment faced by rising cost pressure. This requires operative excellence. We want to become more efficient on a consistent basis and are therefore continuing to optimise our cost structure.

Business Performance and Situation

Profitability

The HSBC Trinkaus & Burkhardt Group recorded a pre-tax profit of €187.0 million in the 2020 financial year (previous year: €144.8 million). This significant increase of €42.2 million, or 29.1%, compared to the previous year's result is mainly due to more than doubled trading income and a 9% increase in net fee income. This stands in contrast to a very sharp increase in risk provisioning expenses due to the difficult economic conditions. In addition, despite the savings achieved in personnel expenses, higher administrative expenses were incurred in the financial year compared to the previous year, among other things due to higher depreciation and an increase in the charging of services within the HSBC Group as a result of the transfer of further subprocesses to HSBC service units in line with the strategy. All in all, we therefore achieved a significantly better pre-tax profit than we had expected at the beginning of the year and even in the middle of the year. Net profit for the year amounted to €129.5 million and was therefore 32.8%, or €32.0 million, above the previous-year figure of €97.5 million.

Business performance in 2020 was largely shaped by the COVID-19 pandemic and the resulting negative impact on the global economy, but also by the associated business opportunities. The difficult economic situation confronts many companies with real challenges, as reflected in a corresponding rise in risk provisioning requirements. At the same time, however, the turbulence on the global capital markets also led to a significant increase in our customers' activities on the capital markets, which had a very positive impact on the Bank's revenues. Nevertheless, the intensity of competition and the pressure this exerts on margins remain high. Negative interest rates in the Eurozone, as well as the significant reduction in US-dollar money market interest rates, continue to put pressure on margins in the deposit-taking business.

The development of the individual items of the income statement is described in the following sections:

Net interest income came to €226.5 million (previous year: €228.1 million) and therefore decreased slightly by €1.6 million, or 0.7%, in total.

In the customer lending business, we were able to improve net interest income from a product perspective compared to the previous year despite lower average volumes due to higher margins.

Net interest income from the deposit-taking business improved slightly over the previous year from a product perspective. We were able to pass on an additional proportion of the existing charges from the negative interest environment in the Eurozone to customers in all segments.

Net interest income from our financial assets fell significantly once again. While maintaining our strict rules on the asset quality, bullet loans with comparable risk profiles could therefore only be replaced by those with significantly lower coupons in the 2020 market environment.

Net interest income from the management of the Bank's interest rate and currency risk, which we report under other interest income in line with internal management, fell significantly compared to the previous year.

Net expenses for risk provisioning in the lending and securities business amounted to €83.7 million (previous year: €45.1 million). The impairments on defaulted exposures incurred expenses from the creation of and additions to net loan impairment and other credit risk provisions of €61.4 million and income from the reversal of net loan impairment of €15.2 million. The other lending and securities exposures resulted in a net addition to risk provisioning of €35.9 million through profit or loss. Furthermore, direct write-offs in the amount of €2.0 million and payments received on receivables already written off in the amount of €0.4 million were recorded.

Net fee income rose by €40.9 million, or 9.0%, to €494.0 million (previous year: €453.1 million).

At €233.2 million, net fee income from the securities business was up by €0.8 million from the previous year's figure of €232.4 million. In particular in the business with equities and equity derivatives, higher fee income was achieved as a result of the increased transaction volume compared to the previous year, although this was also accompanied by higher fee expenses. Compared to the previous year, income from the referral of customer business to the HSBC Group and the result from the business with alternative investments declined.

In the commission business with exchange rates, we generated a €8.2 million increase in net income to €71.2 million (previous year: €63.0 million) due to the further increase in the volume traded.

Net fee income from asset management declined by €6.0 million to €70.9 million (previous year: €76.9 million) in what continued to be a highly competitive environment. The previous year's result benefited from income from the outperformance of assets under our management, which was not possible to the same extent in 2020.

In capital financing, we were unable to match the previous years' positive results from equity- and debt-based corporate financing transactions. Net fee income increased significantly by €34.3 million to €61.8 million (previous year: €27.5 million). The increase was mainly due to a major acquisition transaction that we supported.

Net fee income in the lending business increased significantly by €10.5 million to €35.8 million year on year (previous year: €25.3 million). The increase in net fee income from the lending business is related to the success in the business with corporate finance transactions.

The volume of domestic/international payments and documentary business remained practically unchanged compared to the previous year at €21.6 million (previous year: €21.7 million).

Net trading income increased significantly by €89.4 million to €159.8 million (previous year: €70.4 million).

Income generated from trading with equities and equity derivatives increased significantly by €83.8 million year on year to €128.6 million (previous year: €44.8 million). The high volatility on the stock markets in 2020 led to increased interest and thus significantly higher business volumes in investment certificates and trading products.

Net trading income from bonds, money market transactions and interest rate derivatives amounted to €27.1 million, which marks a year-on-year increase of €4.8 million against the backdrop of high market volatility (previous year: €22.3 million).

Income generated from foreign exchange trading declined again in 2020 by €1.6 million to €1.6 million. The switching of foreign exchange trading to automated platforms continues to impact negatively on the margins.

We reported an increase of €27.5 million, or 4.4%, in administrative expenses to €646.4 million (previous year: €618.9 million).

At €378.6 million, personnel expenses improved by €8.8 million year on year (€387.4 million). Despite the high expenses in connection with our efficiency programme, the decline in the number of employees to an average of 2,995 in the financial year was noticeable (previous year period: 3,097), as was a decrease in variable remuneration.

Other administrative expenses rose from €192.7 million to €216.8 million despite savings achieved in various areas of the Group. The increase is due in particular to the transfer of further subprocesses to HSBC service units in line with the strategy and the associated settlement of services within the HSBC Group. Furthermore, the expenses for the bank levy increased again compared to the previous year.

Depreciation and amortisation on property, plant and equipment and intangible assets stood at €51.0 million and were €12.2 million higher year on year. The significant increase is mainly due to unscheduled amortisation of intangible assets in connection with our "Germany Transformation" programme announced in autumn 2020 and the initiated change to the IT infrastructure of the HSBC Group that this entailed.

The cost efficiency ratio stands at 70.5% (previous year: 76.5%). As forecast, it therefore remains above the 70 % mark.

Income from financial assets was up by €8.5 million to €18.8 million (previous year: €10.3 million).

Net profit from other financial assets mandatorily measured at fair value through profit or loss was once again positive at €9.9 million following €–11.9 million in the previous year.

At €0.0 million, the net profit from the disposal of individual financial assets measured at amortised cost was balanced in the financial year (previous year: net expenses of €0.9 million).

Other operating income amounted to €8.0 million (previous year: €36.1 million). The significant decrease is mainly due to a one-off income from the sale of a property included in the previous year.

Other net income was positive at €0.1 million (previous year: negative at €–0.2 million).

Tax expenses in the financial year under report stood at €57.5 million (previous year: €47.3 million) and were up accordingly year on year, reflecting the increase in results. This equates to a tax rate of 30.7% after 32.6% in the previous year.

Consolidated profit for the financial year is attributable in full to the shareholders of HSBC Trinkaus & Burkhardt AG.

Please see the Note “Customer Groups” in the Notes to the consolidated financial statements for the development of the results of the individual segments.

in €m	2020	2019	Change	
			in €m	in %
Net interest income	226.5	228.1	– 1.6	– 0.7
Risk provisioning in the lending and securities business	83.7	45.1	38.6	85.6
Net fee income	494.0	453.1	40.9	9.0
Net trading income	159.8	70.4	89.4	> 100.0
Gains and losses from the disposal of financial assets measured at amortised cost	0.0	– 0.9	0.9	100.0
Net profit from other financial assets mandatorily measured at fair value through profit or loss	9.9	11.9	– 2.0	– 16.8
Income from financial assets	18.8	10.3	8.5	82.5
Administrative expenses	646.4	618.9	27.5	4.4
Net other income	8.1	35.9	– 27.8	– 77.4
Pre-tax profit	187.0	144.8	42.2	29.1
Tax expenses	57.5	47.3	10.2	21.6
Net profit	**129.5**	**97.5**	**32.0**	**32.8**

The Asset Situation

Total assets increased by €2.9 billion and amounted to €29.5 billion as at the balance sheet date, compared with €26.6 billion at the end of the previous year.

Customer accounts remain the Bank's most important source of refinancing and amounted to €18.1 billion as at the reporting date (previous year: €17.7 billion), which is around 62 % of the balance sheet total.

At €4.3 billion, deposits by banks increased significantly compared to the previous year (€2.6 billion). This includes €2.2 billion from the targeted longer-term refinancing operations (TLTRO) III. In the financial year, all TLTRO II allocations (€1.1 billion) were repaid. This resulted from an increase in collateral items in the derivatives trading business (€0.5 billion).

Trading assets amounted to €1.9 billion and were up slightly year on year (previous year: €1.8 billion). The negative market values of derivative financial instruments increased by €0.3 billion to €1.4 billion.

Provisions stood at €166.3 million and were up by €37.4 million compared to the previous year. Of the increase, the lion's share (€27.1 million) relates to provisions for pensions and similar obligations and is due in particular to the significantly lower interest rate level.

Subordinated capital fell from €551.3 million in the previous year to €530.9 million due to the scheduled repayment of promissory note loans and subordinated bonds.

Shareholders' equity rose by 4.3 % to €2,594.5 million (previous year: €2,488.6 million). The return on equity before tax of 7.7 % was therefore significantly above previous year's figure of 5.9 % and, as forecast, continued to be some way short of the 10 % mark.

Share capital was €91.4 million, as in the previous year. Capital reserves and the Additional Tier 1 capital (AT 1) remained unchanged at €720.9 million and €435.0 million respectively. In the second quarter, a distribution on the Additional Tier 1 (AT 1) capital in the amount of approximately €22.6 million was made to the HSBC Group. The valuation reserve for debt instruments measured at fair value through other comprehensive income stood at €64.1 million and rose by €16.3 million year on year due to the current market development. The reserve for remeasuring the net pension obligation fell by €18.5 million compared to the previous year to €–114.8 million. This is due to the negative development of the plan assets compared to the forecast at the beginning of the year (€–3.1 million) and the effect of further reduced interest rates (€–15.4 million).

Assets in €m	**31.12.2020**	**31.12.2019**	**Change**	
			in €m	**in %**
Cash reserve	10,454.4	5,731.5	4,722.9	82.4
Loans and advances to banks	1,567.5	1,987.0	–419.5	–21.1
Loans and advances to customers	8,516.8	10,866.5	–2,349.7	–21.6
Trading assets	2,639.0	2,801.9	–162.9	–5.8
Positive market values from derivative financial instruments	1,713.3	1,164.2	549.1	47.2
Other financial assets mandatorily measured at fair value through profit or loss	84.4	120.9	–36.5	–30.2
Financial assets	4,050.6	3,509.4	541.2	15.4
Property, plant and equipment	134.5	137.3	–2.8	–2.0
Intangible assets	77.8	86.3	–8.5	–9.8
Taxation recoverable	89.5	119.1	–29.6	–24.9
Other assets	66.5	68.7	–2.2	–3.2
Non-current assets held for sale	72.7	n/a	n/a	n/a
Total assets	**29,467.0**	**26,592.8**	**2,874.2**	**10.8**

Liabilities in €m	31.12.2020	31.12.2019	Change	
			in €m	in %
Deposits by banks	4,303.6	2,608.1	1,695.5	65.0
Customer accounts	18,131.6	17,650.8	480.8	2.7
Trading liabilities	1,902.8	1,793.8	109.0	6.1
Negative market values from derivative financial instruments	1,414.5	1,070.0	344.5	32.2
Provisions	166.3	128.9	37.4	29.0
Taxation	67.3	34.9	32.4	92.8
Other liabilities	355.5	266.4	89.1	33.4
Subordinated capital	530.9	551.3	–20.4	–3.7
Shareholders' equity	2,594.5	2,488.6	105.9	4.3
Total liabilities	**29,467.0**	**26,592.8**	**2,874.2**	**10.8**

The increase in cash reserves by €4.7 billion to €10.5 billion is related to the increase in deposits and the decline in receivables.

Loans and advances to banks of €1.6 billion decreased by €0.4 billion compared to the previous year. The decrease resulted from current accounts(€–0.9 billion), which was offset by a lower increase in collateral items in the derivatives trading business (€0.6 billion).

Loans and advances to customers after net loan impairment provisioning decreased from €10.9 billion to €8.5 billion. The decrease results predominantly from current accounts and loan accounts.

Trading assets amounted to €2.6 billion, a decline of €0.2 billion compared with the previous year. At €1.7 billion, the positive market values from derivative financial instruments increased by €0.5 billion compared with the previous year.

At €4.0 billion (previous year: €3.5 billion), financial assets rose by €0.5 billion due to additions to bonds. Most of the financial assets consist of listed bonds eligible for refinancing with central banks and serve as a liquidity cushion.

Property, plant and equipment amounts to €134.5 million and is slightly below the previous year's value. The initial recognition of rights of use in relation to a rental property in accordance with IFRS 16 is offset by the reclassification of our main building from property, plant and equipment to non-current assets held for sale in accordance with IFRS 5.

The Financial Position

(a) Capital

One of the central functions of the banking business is consciously entering into risk, its targeted transformation and active management. The assumption of risk is limited by the supervisory authorities in order to guarantee the stability of the banking system. The institution's and the Group's equity capital is material for the extent of the permissible risk. The definition and calculation of equity capital is a central component of the supervisory regulations. On the one hand, supervisory risk limitation impacts the risk positions as the total of the risk-weighted assets (RWAs), the market risk equivalent and the operational risk, which have to be backed by capital at predefined minimum rates (Pillar 1). On the other hand, the maximum credit limit up to which an individual borrower or a borrower unit may be granted a loan is determined from the extent of the capital.

The regulatory approach and the fulfilment of the regulatory requirements are supplemented by economic analysis of the capital requirements (Pillar 2). Please see the section on ICAAP (Internal Capital Adequacy Assessment Process) in the Risk Report.

In accordance with the resolution passed at the Annual General Meeting on 9 June 2020, HSBC Trinkaus & Burkhardt AG did not pay a dividend in line with the recommendations of the supervisory authorities, but instead allocated the profit available of €79.8 million in full to retained earnings. At this year's Annual General Meeting, we will propose the payment of a dividend of €4.00 per share (previous year: €0.00 per share).

Furthermore, it is proposed to allocate the part of the AG's net profit exceeding the dividend to the retained earnings.

HSBC Trinkaus & Burkhardt AG raised Additional Tier 1 capital (AT1) in December 2016 in the form of a deeply subordinated bearer bond with unlimited maturity for the total amount of €235.0 million. The bond cannot be called by the issuer for the first five years, and it features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.65%.

In January 2019, HSBC Trinkaus & Burkhardt AG raised further additional Tier 1 capital (AT1) in the form of a deeply subordinated bearer bond with unlimited maturity with a total notional amount of €200.0 million. The bond cannot be called by the issuer until 1 January 2025, and it features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.04%.

HSBC Bank plc, London, fully subscribed and acquired both securities in a private placement. According to HGB regulations, additional core capital is reported under subordinated liabilities.

In June 2014, HSBC Trinkaus & Burkhardt AG raised supplementary capital in the form of a subordinated loan with a total amount of €150 million, originally with a maximum term of ten years. At the end of August 2019, the loan agreement was contractually amended to extend the term until the end of August 2029 and reduce the premium on the variable interest rate from 1.57 % to 1.49 %. As a result of the adjustment, the subordinated loan is callable by the issuer for the first time five years after the contractual adjustment, and thereafter at every coupon date.

In December 2018, HSBC Trinkaus & Burkhardt AG raised supplementary capital in the form of a subordinated loan with a total amount of €200 million with a maximum term of ten years. The subordinated loan is callable by the issuer for the first time after five years and thereafter at every coupon date. The variable rate equates to three-month Euribor plus a premium of 2.32%.

The HSBC Trinkaus & Burkhardt Group had equity capital of €2,423 million as at 31 December 2020 (previous year: €2,314 million). Tier 1 capital accounted for €2,141 million (previous year: €1,998 million) and Tier 2 capital for €282 million (previous year: €316 million). Tier 1 capital consists of Common Equity Tier 1 Capital of €1,847 million and Additional Tier 1 Capital of €294 million.

(b) Capital requirements

The Bank's risk-weighted assets as at 31 December 2020 stood at €15.4 billion (previous year: €15.9 billion), of which credit risk accounted for €13.2 billion (previous year: €13.6 billion), market risk for €0.8 billion (previous year: €0.8 billion) and operational risk for €1.4 billion (previous year: €1.4 billion). This gives a Tier 1 ratio of 13.9% (previous year: 12.6%) and a regulatory capital ratio of 15.7% (previous year: 14.6%). In the previous year's forecast, we assumed approximately unchanged capital ratios against the backdrop of an expected reduction in risk-weighted assets in the lending business and in anticipation of slightly higher deduction items in regulatory capital. Due in particular to the decision made at the Annual General Meeting on 9 June 2020 not to pay a dividend, the development of the capital ratios in the course of the year was better than originally forecast.

Due to the provision of Additional Tier 1 capital and Tier 2 capital in the recent past, regulatory capital requirements continue not to be a bottleneck factor.

Since the Single Supervisory Mechanism (SSM) came into force in November 2013, there has been greater harmonisation of supervisory practice in Europe. Supervision is carried out directly or indirectly by the European Central Bank in close cooperation with the national supervisory authorities. HSBC Germany is still subject primarily to national banking supervision and undergoes an annual Supervisory Review and Evaluation Process (SREP). As a result of this process, BaFin notified the Bank in 2019 that it has to maintain an equity ratio of at least 9.0%. Due to the COVID-19 pandemic, BaFin did not send out any new SREP notices to banks in 2020.

The leverage ratio measures the ratio between regulatory capital and the unweighted asset items on and off the balance sheet (including derivatives). The leverage ratio is to be reported to the supervisory authorities as an observation and published by the institutions. With the entry into force of the CRR (Capital Requirements Regulation), the minimum leverage ratio was set bindingly at 3%. As at 31 December 2020, the Bank's regulatory leverage ratio within the Group stood at 5.0% (previous year: 5.0%).

(c) Liquidity

Irrespective of the extent of the capital, liquidity is the decisive factor for banks to be able fulfil all of their contractual obligations in times of crisis as well. Owing to the very high level of customer deposits together with a considerable liquidity cushion on the assets side, the Bank is still in a very comfortable liquidity position.

In March 2019, the Governing Council of the ECB decided to initiate a further series of targeted longer-term refinancing operations (TLTRO III) intended to strengthen the transmission of monetary policy by further incentivising bank lending. The implementing regulations were announced in the TLTRO III legal act in July 2019. A total of ten TLTRO III operations are to be conducted at quarterly intervals starting in September 2019, each with a three-year term and a voluntary repayment option. Most recently, on 30 April 2020, the Governing Council of the ECB adjusted the terms and conditions of TLTRO III in order to continue to support the long-term access of businesses and households to bank credit in the current difficult economic environment. Subject to a corresponding development in net lending, a discount of 50 basis points will therefore be applied to the average main refinancing rate during the special interest rate period from 24 June 2020 to 23 June 2021. The Bank participated in the fourth TLTRO III operation with a total volume of €2.2 billion after the funds from the targeted longer-term refinancing operations II (TLTRO II) in the amount of €1.1 billion were fully repaid in the course of the year. The interest income of €7.7 million recognised from the TLTRO in 2020 is offset by corresponding interest expenses on our account at the Deutsche Bundesbank.

The Liquidity Coverage Ratio (LCR) has been binding throughout Europe since October 2015. The mandatory compliance rate was gradually raised and stood at 100% in 2020. The regulatory Liquidity Coverage Ratio stood at 152.6% as at 31 December 2020 (previous year: 135.3%).

The Bank also calculates the Net Stable Funding Ratio (NSFR). The NSFR is defined as the ratio of the available amount of stable funding to the required amount of stable funding. The book values of the liquidity positions, which are multiplied by regulatory weighting factors, serve as a reference value. The NSFR is currently reported as an observation ratio and has been set at a minimum of 100 % as a result of the CRR entering into force.

Please see the section on Liquidity Risk in the Risk Report for details of the management of liquidity risk.

Outlook and Opportunities

The consequences of the pandemic will have a significant impact on the business figures of customers and banks, the full extent of which is still difficult to predict. With regard to the overall economic development, we refer to the presentation in the corresponding section of the economic report. For the 2021 financial year, we expect this to have the following effects in particular on HSBC Germany.

The Bank's solid deposit base again expanded significantly at times during the COVID-19 crisis. This is due to the fact that our institutional customers in particular reduced risks in their investment portfolios in times of turbulent capital markets and reduced risk-bearing securities in favour of deposits with the Bank. The accompanying (at times significant) increase in deposits led to a temporary balance sheet increase, which had largely returned to normal by the end of 2020. The marked overfulfillment on average of the Liquidity Coverage Ratio requirements is nevertheless likely to continue. Firstly, the Bank continues to have a well-diversified and extremely robust deposit base. Secondly, the Bank has significant scope for refinancing with the ECB and corresponding funding as a result of its repeated participation in the targeted longer-term refinancing operations (TLTRO III) initiated this year.

As a result of the COVID-19 pandemic, we expect a temporary increase in risk-weighted assets during the year, which should level off again towards the end of the year to about the same level as at the beginning of the year. The expected increase in risk-weighted assets during the year is based on rating migrations. The impact of the pandemic on our customers' business figures will result in rating downgrades on average for our loan portfolios and for the banking industry as a whole, which will lead to an increase in risk-weighted assets during the year.

The Bank's capital base has emerged stronger from the 2020 financial year and is therefore well equipped to face the challenges of the COVID-19 pandemic. In 2020, HSBC Germany complied with the request by the banking regulators not to pay a dividend for the 2019 financial year and used the retained dividend to strengthen its capital base. With the takeover of LBBW's share by HSBC, the capital deductions for minorities defined in accordance with the CRR were eliminated on a pro rata basis, resulting in a further strengthening of equity. Against the backdrop of the pandemic, HSBC Germany will continue to operate with conservative capital buffers well above statutory requirements in 2021. If the further development of business and risk permits, the plan is to continue to reduce capital ratios through distributions at a very conservative level, but below the ratios as at 31 December 2020.

The Bank will continue to focus on the further expansion of its market position as a leading international bank, particularly in Corporate Banking, in accordance with our earnings-oriented growth strategy. We stand by our customers as a stable and reliable partner. We also plan to further expand the Institutional Banking and Global Markets business. The still intense competitive situation in the lending business is characterised by often long loan periods, as well as still comparatively lax loan regulations and low margins. As a result, this often leads to a low attractiveness of the customer lending business on an isolated basis. We will therefore manage the lending business very much according to value-oriented standards and strive for sufficiently large additional business.

In 2021, net interest income will continue to suffer from the environment of negative euro interest rates and sharply decreased US dollar interest rates. We are fundamentally positive about the very strong net fee and trading income for 2021, but we do not believe that we will be able to fully match the good results of the 2020 financial year. In general, we see the ongoing trend of high securities transactions as remaining stable, but we expect market activity to be less turbulent in 2021 than in 2020 in connection with the expected containment of the COVID-19 pandemic. We also expect that we will not be able to fully match the success of the strong previous year in investment banking. Taking into account an expected building sale from our building strategy, which has been adjusted based on the experience of the pandemic, we expect noteworthy extraordinary income. As a result, we expect income to rise in 2021 in consideration of all income components.

Our cost development will continue to be characterised by rigid cost management. In particular, we will continue to push ahead with our efficiency programme. This will also result in significant costs in 2021, from which sustainable cost savings will be generated for the coming years. We expect the cost efficiency ratio to continue to remain slightly above 70%.

Against the backdrop of the COVID-19 pandemic in the 2021 financial year, we expect risk provisioning to remain in a comparable range as in the 2020 financial year, and therefore significantly above the Bank's long-term average.

All in all, we therefore expect a pre-tax profit slightly above the previous year's level in 2021. However, the result will not yet be sufficient to achieve our targeted return on equity before taxes of 10%. In view of the initial economic situation in the wake of the COVID-19 pandemic, as described above, this forecast is naturally subject to a high degree of uncertainty. In particular, this forecast does not include the occurrence of a third wave of contagion or a further intensification of geopolitical conflicts.

We continue to confidently tackle the challenging market environment, our ambitious business development goals and the extensive projects we have started to modernise the Bank.

Risk Report

Risk management at the HSBC Trinkaus & Burkhardt Group

Definition

In accordance with German Accounting Standard no. 20 (DRS 20), we understand "Risk Management System" to mean all rules which guarantee the systematic and permanent handling of risks on the basis of a defined risk strategy, or opportunities and risks, within the Group.

Principles of Risk Management Policy

One of the key functions of a bank is to consciously accept risk, actively control it and systematically transform it. We regard counterparty, market and liquidity risks, as well as operational, strategic and capital risk, 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 risk-bearing capacity, but also offers corresponding risk premium and return. As a result of the risk inventory, pension risk is no longer classified as a material risk

The superior principle is the objective of avoiding the risk that the Bank is unable to meet its regulatory capital requirements. For this purpose, we have implemented an ICAAP process, which covers both the economic perspective and regulatory capital planning, and thus monitors capital risk. In addition, we have implemented a control system that includes a "Target Operating Range", as well as "Appetite" and "Tolerance" levels. For each level, measures are defined that can be taken to improve the regulatory capital ratios.

In accordance with these risk principles, we are ready to actively enter into market and counterparty risk. We seek to minimise operational risks if there is a reasonable balance between risk avoidance and the related costs. Furthermore, adequate insurance has been taken out.

We avoid liquidity risks as far as possible and are prepared to accept lower profits as a consequence. Strategic risk, which can arise among other things from changes in laws and regulations, the competitive situation and macroeconomic framework data, as well as market conditions, is taken into consideration when determining our business strategy as part of the planning process.

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 risk-bearing capacity on the one hand and the special risk management expertise in our core lines of business on the other. These principles continue to apply. Liquidity management is becoming increasingly important against the backdrop of heightened regulatory requirements and in view of our business model. Issues relating to the liquidity situation of the Bank continue to be our top priority, even if the supply of liquidity on the market remains extremely good. We have further strengthened our liquidity reserve and paid attention when investing the funds accruing in the money and capital market to keeping liquidity on a high level. We are aware that we work with money deposited by our investors who entrust us with their funds. The banking supervisory liquidity provisions confirm our cautious stance.

The management of counterparty risk continues to be very important to our Bank. Coming out of a very long phase with low default rates, the market has seen a significant increase in insolvency figures since 2019, which also affected us in 2020. The economic outlook for 2021 is not as positive as it has been in previous years, and we are seeing significantly heightened risk in some industries.

We are combating this trend by continuing to conduct extremely thorough analysis coupled with the separate observation of early warning signals. We are also analysing individual industries and imposing limits as and when we see fit. At the same time, we continue to see growth prospects in certain areas.

Movements on equity markets in particular in 2020 were characterised by very high volatility due to the uncertainty of market participants caused by the

COVID-19 crisis. The market risk limits, which are still set at a low level, were therefore utilised to a greater extent compared to previous years. In addition, three negative backtesting anomalies were observed at trading book level in 2020, all of which were attributed to market dislocations.

Particular importance is now being attached to the topic of cybersecurity and information security management. Comprehensive programmes have been developed further at the Bank – as in the entire financial sector – to strengthen the resilience against external attacks, but also against internal information security loopholes. Banks have to counteract the increasing know-how demonstrated by potential attackers by strengthening their own defence capacity at the same time. Simultaneously, increasing employee awareness through regular training and targeted individual measures is a core element in protecting against cyber risks. We assume that these investment-intensive, continuous adjustments will put pressure on our resources and our investment budget for several years to come.

Risk Culture

Risk culture is of particular importance at banks. The Management Board members are responsible for the development, promotion and integration of an appropriate risk culture within the HSBC Trinkaus & Burkhardt Group. Risk culture is an integral part of corporate culture and is to be taken in by each individual employee and practised in day-to-day business to ensure that the Bank acts sustainably in the interests of all stakeholders.

We understand risk culture as the manner in which employees (should) manage risk within the scope of their activities. The risk culture should promote the identification and conscious approach to risk and ensure that decision-making processes yield results that are balanced also from a risk perspective and in the interests of their customers. A definitive feature of an appropriate risk culture is above all the clear commitment of the management to behaviour that is commensurate with risk, strict compliance of all employees with the appetite for risk communicated by the management, and facilitating and promoting a transparent and open dialogue within the Bank on issues that are relevant to risk. This is enshrined in the Code of Conduct.

It is decisive here that the actions of each individual employee are in keeping with the uniform ethical standards practised at the company. HSBC has stipulated such behavioural standards with the three central HSBC values – reliability, openness and solidarity. Their individual meaning is as follows:

- Reliability and consistency in our actions: We keep our promises, act with integrity and are trustworthy. We take on personal responsibility, make decisions, use our common sense and support others in their good intentions.
- Openness to dialogue and other opinions: Our communication is characterised by openness, honesty and transparency. We create a culture of open communication of risks, face challenges positively and learn from our mistakes. We appreciate the value of diversity and equal opportunities irrespective of gender, age, family situation, religion or ethnic or social origins. We listen, are fair, act with integrity and appreciate other opinions.
- Solidarity with customers, society, supervisory authorities and employees: We establish relationships, take the interests of the public and supervisory authorities into consideration and work together across borders. We look after the individual and his/her development, and are respectful, helpful and accommodating.

The principle of "courageous integrity" is the key element of the HSBC values. Courageous integrity means having the courage to make decisions without being afraid and without waiting for specific instructions, but also without compromising the ethical guidelines and integrity for which HSBC Germany has stood ever since it was founded. This principle encourages employees to take responsibility for their own actions and make decisions on their own without hiding behind rankings and rules. It also gives them the confidence to stand up for what is important and protect themselves from what is not right in everyday life.

With its "Global Standards", the HSBC Group has set itself the goal of establishing the most effective controls for avoiding financial crime. Since 2016, HSBC Germany has devoted a great deal of effort to the Global Standards. The compliance culture has been strengthened further.

Risk Management – Organisational Structure

The risk function managed by the Chief Risk Officer covers the following areas:

- Wholesale Credit & Market Risk (WCMR): WCMR is responsible for managing and monitoring market and credit risks.
- Global Risk Analytics (GRA): GRA is responsible for the market and credit risk models used at the Bank, and for their development and validation.
- Operational Risk & Resilience Risk: This area is responsible for managing and monitoring operational risks. Resilience risk is the term used to describe the risks associated with the inability to provide critical services to our customers as a result of permanent or significant operational disruptions.
- Compliance: This area combines the management and monitoring of financial crime risk and regulatory compliance risk.
- RMM* Coordination & Early Risk Identification: This area aims to identify risk at an early stage.

The function is also supported by a Chief Operating Officer.

The Risk Management Meeting meets monthly and is made up, among others, of all Management Board and Executive Committee members. It deals with all of the Bank's risk categories, attaching major importance to the top and emerging risks.

Members of the Risk Management Meeting receive regular reports from and the minutes of further bodies of the Bank which deal specifically with individual types of risk.

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.

In accordance with the concept of the HSBC Group, we have implemented the three lines of defence model. This model is an organisational structure which demarcates the roles and their responsibilities depending on the tasks and activities carried out. The model applies for all employees and all types of risk. There is a clear separation between risk responsibility (first line of defence), monitoring (second line of defence) and independent confirmation (third line of defence) in order to support the Bank in effective risk management (identification, evaluation, monitoring, management and communication). This organisational structure guarantees 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.

The awareness of values and the risk culture are strengthened by advanced training measures in which the Management Board and Executive Board members actively engage to promote a responsible corporate culture.

Tax Risk Management – Tax Compliance Management System

The three lines of defence concept outlined above forms a sub-element of the Bank's internal tax control system, which is known as the "Tax Compliance Management System" (Tax CMS).

The Bank understands a Tax CMS to be the principles and measures introduced based on the objectives set by the legal representatives, which are aimed at unconditionally ensuring the rule-compliant behaviour of its bodies, all employees and, where applicable, third parties. Such a system is formally characterised by the fact that it comprehensively records all essential Bank processes with a tax reference and all concrete existing responsibilities within the Bank in this regard, thereby providing complete structural and substantive transparency of the Bank and its way it manages business vis-à-vis third parties (especially financial authorities and external auditors). Taking this guiding principle into account, the Tax CMS is able to provide particular protection with regard to the reproachability of errors and deficiencies under criminal tax law, which, from the point of view of the tax authorities, may at the very least constitute "... an indication that may speak

*Risk Management Meeting

against the existence of intent or recklessness ..." in the event that an error is established. The Bank defines future uncertain events with an actual or potential significant negative impact on the tax position or the reputation of the Bank as a tax risk that is to be recorded and sustainably managed on the basis of the Tax CMS. Tax risk results from violations of tax obligations, which are governed in particular by the Fiscal Code of Germany (AO) and individual tax laws. All units within and outside of the Bank that are included in the fulfilment of tax obligations and/or are part of the tax-related information and process chain are responsible for meeting these obligations based on a general binding Group directive implemented by the Bank. Those responsible for the proper handling of tax risk include executive bodies of the Bank and Bank staff, as well as third parties (such as customers, suppliers, and service providers).

The implementation of the Tax CMS first required the expansion of the existing value foundation to include an outwardly documented and universally embraced commitment to the rule-compliant handling of tax matters. The idea, type and scope of this value-oriented tax compliance culture were developed under the proactively-perceived responsibility of the Management Board, are to be permanently established in the Bank by the Management Board in the spirit of a "tone from the top" and are regularly reviewed according to a defined process for robustness of content and need for optimisation. As a result, an effective Tax CMS regularly leads to the avoidance of financial disadvantages in ongoing taxation proceedings, the minimisation of financial risks as a result of reputational damage, (sanction-excluding) exoneration in the correction of errors or the elimination of deficiencies, as well as the sustainable foundation of an increased corporate social responsibility towards the public.

The principles, measures and controls used as a basis for assessing the tax risks at the Bank were comprehensively recorded for the first time as part of an adequacy audit in connection with the Tax CMS as at the reporting date of 30 June 2020. Furthermore, they were certified as appropriate and implemented without qualification by the auditing firm KPMG in an audit report dated 10 July 2020.

In order to ensure the required effectiveness of the Tax CMS, the principles, measures and controls recorded in the adequacy assessment must be incorporated into the Bank's regular operations, i.e. its actual work processes. The key factors here are the sustainable, practicable and complete documentation of the defined risks and the actual implementation of the associated controls and measures. In order to ensure verifiability, there is also a need for interdepartmental cooperation along the existing process chains based on a uniform system. This is necessary because significant elements of the controls and measures are not located in the tax department but are carried out where tax-related data is actually collected, accounting entries are made or notifications are executed. On the basis of a clear-cut assignment of responsibilities for clearly defined tasks, an IT solution that is yet to be implemented throughout the Bank will automatically create the transparency that enables a downstream audit by third parties (tax authorities, external auditors) at any time and thus the legal consequences intended by the establishment of a Tax CMS.

Internal Capital Adequacy Assessment Process

Our capital management, which is geared towards the regulatory requirements, is also complemented by analysis of the economic capital requirement (Internal Capital Adequacy Assessment Process, ICAAP). ICAAP is based on the second pillar of the Basel capital requirements framework and fulfils the Minimum Requirements for Risk Management (MaRisk) stipulated by the Federal Financial Supervisory Authority (BaFin).

According to MaRisk, banks have to set up strategies and processes which ensure that enough internal capital is available to cover all main risks and that their risk-bearing capacity is permanently guaranteed as a result. ICAAP constitutes an integral part of risk management for us, which is embedded into the risk management process and is constantly being developed further.

The quarterly analysis and continuous monitoring of the risk-bearing capacity is based on an income statement/balance sheet approach and also covers types of risk that are not included in the regulatory requirements for the capital adequacy of banks (e.g. liquidity risk). As a result of the 2020 risk inventory, pension risk has no longer been quantified in the ICAAP since Q3 2020.

The calculation of the economic capital requirement and derivation of the aggregate risk cover is carried out for two different scenarios – going concern and liquidation scenario – which are completed by associated stress assessments. Within the scope of the stress assessment throughout the Bank in the going concern scenario, the Bank takes an unusual but conceivable negative development of the global economy (for example, global economic collapse with a sharp decline in global trade or deterioration of the financial position of the public sector) and thus simulates the impact on specific quantifiable risks. Separate stress scenarios are defined for quantifiable risks that are not covered by the scenario and the impact analysed. In addition to these regular stress tests, the Bank conducts an inverted stress test once a year. This type of stress testing is related to the identification of results that could seriously threaten the Bank's own existence – in other words, that could potentially erode the aggregate risk cover of the going concern and/or liquidation scenario. Because of the current political situation, we have identified growing protectionism of countries outside the EU as a possible inverse stress scenario (going concern), which could put export-oriented companies in particular under pressure and devalue the Bank's loan portfolio. Given that a stress test with a focus on exports outside of the EU had posed a threat to the risk-bearing capacity in the liquidity scenario only under very unrealistic assumptions, a counter stress test was examined instead for the liquidity scenario. This crisis scenario concerned in particular companies that are heavily dependent on sales within the EU, as well as European banks and countries. Besides a downgrade of the creditworthiness, increased correlations and loss ratios were also modelled. The impact analysis of the inverse scenarios also takes compliance with the minimum capital ratios under Pillar I into account.

The theoretical methods and models for quantifying the economic capital requirement are at varying stages of development in the different types of risk.

In line with a conservative approach, diversification effects are not taken into consideration at the Bank at present.

We continue to adjust the calculation of the economic capital requirement to meet the growing challenges we face. The risk-bearing capacity is comprehensively analysed on a quarterly basis and is continuously updated. The underlying methods are discussed in detail in the Capital Working Group. The minutes of the Capital Working Group are forwarded to the ALCO and dealt with there. ICAAP is also discussed regularly in the Risk Committee of the Supervisory Board.

in €m	31.12.2020	31.12.2019
Risk cover funds	**2,730.7**	**2,593.1**
minus regulatory capital requirement	– 1,457.7	– 1,538.2
Unallocated risk cover funds	**1,273.0**	**1,054.9**
Risks		
Credit risks	141.8	161.5
Market risk (incl. illiquid investment risk)	99.2	80.9
Liquidity risk	9.0	16.5
Operational risk	71.1	67.9
Pension risk	n/a	1.8
Business risk	38.6	38.9
Economic capital requirement	**359.7**	**367.5**
Utilisation of unallocated risk cover funds (in %)	**28.3**	**34.8**

The Group's risk-bearing capacity is unchanged and its capitalisation adequate. The table above shows the Group's risk-bearing capacity for the going concern scenario. Accordingly, a maximum loss of €1,273.0 million (previous year: €1,054.9 million) could have been absorbed as at 31 December 2020 (free risk cover funds) without violating the regulatory minimum requirements.

Restructuring Plan

In compliance with the provisions of the German Act on the Recovery and Resolution of Credit Institutions (SAG), the EC Commission Delegated Regulation EU 2016/1075 and further European standards, as well as the national banking supervision requirements, the HSBC Trinkaus & Burkhardt Group is included in the group restructuring plan of HSBC Holdings plc. Following the UK's exit from the EU, the HSBC Trinkaus & Burkhardt Group will again maintain a standalone recovery plan in accordance with national regulations.

The Group restructuring plan comprises a description of the legal and organisational structures, the business model, the main business activities and critical functions in the financial markets, as well as the internal and external ties of the HSBC Group. It defines possible negative situations in which capitalisation, the risk profile, the quality of the assets, the liquidity position or the earnings situation could come under pressure and represent a risk for the HSBC Group and assesses their impact on the individual Group institutions. The HSBC Trinkaus & Burkhardt Group is represented in the Group restructuring plan with independent capital approved by the Management Board and presented to the Supervisory Board Risk Committee. It shows concrete possible alternatives for the HSBC Trinkaus & Burkhardt Group for burdening situations which enable the prompt return to a normal operating mode within its appetite for risk. In order to observe and identify negative developments early on, the Bank has defined constantly monitored indicators that are embedded in the Bank's risk management and guarantee that the Management Board is informed early on and that possible countermeasures are introduced in good time. Responsibilities and processes for monitoring the Bank's financial stability, as well as escalation, decision-making and communication processes in the event of defined indicator thresholds being exceeded, are defined in the Group restructuring plan. The relevant aspects of the restructuring plan for the HSBC Trinkaus & Burkhardt Group are updated annually, and also during the year if required as a result of any major changes in the Bank or in the environment.

Due to the COVID-19 pandemic, no full-scale update of the Group recovery plan was carried out in the reporting year. The Bank of England and PRA have instead placed their focus on further developing the ability to act in the event of a crisis ("recovery capacity"). The HSBC Trinkaus & Burkhardt Group participated in this process and was able to maintain an appropriately high recovery capacity for a mild course ("V scenario") and for a severe course ("U scenario") of the COVID-19 pandemic.

Risk Categories

Strategic Risk

Strategic risk includes the risks to business plans and strategic objectives resulting from poor execution, inability to adapt to changes in the external environment or failure to meet stakeholder expectations. This can include laws, ordinances and regulatory authority requirements, as well as the competitive situation, macroeconomic data, customer behaviour, technological progress and other market conditions. Strategic risk arises initially from the changed environment to which banks have to adjust. The provisions relating to capital adequacy and refinancing of the banking business will lower the profitability of our customer-oriented business irrespective of the adjustment measures we take. This trend, which will be strengthened by increased costs resulting from other regulatory provisions, is being observed across the entire market. Furthermore, legislative steps such as the introduction of a transaction tax or restrictions on the sale of financial products can have a lasting negative impact on the Bank's earnings base. The continuing low interest rate level with negative interest rates in the ECB's deposit facility continues to exert major pressure on the earnings situation. Regulation and monetary policy are setting impetus which is not compatible in part. Strategic risk also arises from our strategic orientation with its very selective customer focus, as there is strong competition for our customer owing to their significance in the market.

HSBC Trinkaus & Burkhardt's strategic position includes the risk arising from the fact that a large proportion of our revenues are dependent upon our customers' 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 can only counteract this risk to a limited extent. We are continuing our return-oriented growth within the scope of our strategic planning. Thanks to our strong integration into the HSBC Group, we can also counteract this risk in a targeted way to a certain extent through the large range of products available to the Bank, as well as the global service offer we can rely on for our customers.

We are confident as regards the Bank's strategic position, as we have been able to improve our market position in all customer segments in recent years. The risk premiums for counterparty risk have fallen further. Some banks with low demands on their return on equity continue to exercise price pressure, which places the margins under additional pressure. This trend is being strengthened above all by the ECB continuing to provide the euro money market with excess liquidity.

The low interest rate environment, which is leading to the devaluation of deposit operations financed mainly by customer deposits, continues to represent a challenge. Investment income from our liquid securities falls each time a fixed-income bond is repaid.

As regards the further modernisation of our IT architecture, we have started to systematically work off the backlog of demand and primarily – alongside the regulatory requirements – improve our customer services. Adjusting 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, in addition to the costs for introducing the systems, leading to a further increase in costs for the Bank. We are therefore cooperating actively in the HSBC Group's projects aimed at increasing the efficiency of the Bank's operating processes and streamlining the overall organisation. This also includes the use of the HSBC Group's nearshore and offshore opportunities, which we want to continue to increasingly use for the provision of services.

The Bank is expecting to observe further amendments and adjustments to regulatory requirements over the coming years. This is leading to a permanent increase in regulatory costs. The Bank's fixed costs will increase, irrespective of its earnings opportunities, and exert an influence on the minimum cost-efficient operating size of the Bank. Overall, we still regard the regulatory environment as challenging, but see ourselves as well equipped for the resulting consequences. The structural and lasting decline in the return on equity associated with the process of transformation in the banking sector will have an impact on all banks.

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 banking crisis, in the euro crisis and in the COVID-19 crisis to date. We are confident of our ability to successfully implement our strategic plans because of our consistent client focus and to be a reliable and long-term strategic partner to our clients thanks to our good capital resources.

Counterparty Risk

(a) Definition
Counterparty risk is understood as the risk of a financial loss resulting from a customer or business partners being unable to meet its contractually agreed obligations partially or in full. Counterparty risk exists especially in the on-balance sheet lending business, in the securities business and in the derivatives business, as well as in off-balance sheet contingent liabilities (financial guarantees) and loan commitments. All segments that enter into counterparty risk are therefore affected, especially the Commercial Banking and Global Banking & Markets segments. Where this risk relates to circumstances resulting from government action, it is known as sovereign risk.

The counterparty risk can be divided into credit, issuer, counterparty, investment and viability risk. Credit risk is the risk that a contractual partner cannot meet its obligations in connection with the granting of loans. Issuer risk is the risk of the issuer of a security defaulting. This happens above all when an issuer is unable to service its bonds (interest or repayments) as a result of liquidity difficulties or insolvency. Counterparty risk is understood as the risk of not receiving contractually agreed consideration as a result of the default of a contractual partner, although its own performance was rendered. Counterparty risk is divided into replacement risks and settlement risks. Replacement risk refers to the risk that the service agreed upon with the counterparty will not be provided at a later point in time and can therefore only be procured at potentially less favourable market conditions. Settlement risks express the threat of losses that can arise if we make an advance outlay as part of trading activities or problems occur within the scope of processing transactions (settlement risk). Participation risk is understood as shareholder risk. This comprises potential losses from the provision of capital in the event of the value of the participation deteriorating.

Viability or dilution risk describes the risk that the amount of a receivable is reduced by the debtor's cash or non-cash counterclaims.

For accounting purposes, we define a default in accordance with the regulatory definition of default under the Capital Requirements Regulation (CRR) in order to guarantee as uniform and consistent an application as possible within the Group. It is uniformly applied for all financial instruments and customer groups. Accordingly, an event of default, and hence an impairment within the meaning of the accounting standards, occurs if it is unlikely that the borrower will be able to meet its obligations in full without having to resort to measures such as the realisation of collateral, or if one of the borrower's substantial receivables is more than 90 days past due.

(b) Credit risk strategy
Counterparty risk represents a substantial source of risk for our Group. The Management therefore pays particular attention to the management and limitation of this risk.

The credit risk strategy coordinated with the Risk Committee of the Supervisory Board provides a framework for entering into default risk. It is examined and adjusted to the current requirements on a regular basis.

We are guided by the principle of risk diversification and therefore aim to spread our credit risk as widely as possible between sectors, borrowers and counterparties, and to avoid the concentration of counterparty risk. At the same time, we attach importance to the borrower having sufficient scope for financing.

There can be a concentration in the area of counterparty risk 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 the Bank 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 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 default risk. Further statements on potentially existing concentration risk can be made based on a portfolio model that explicitly takes default correlations over a risk horizon of one year into consideration.

The Bank is deliberately reticent about direct foreign lending, except where the purpose is to assist its own customers 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. At the explicit wish of our customers, the Bank is also prepared to finance its customers' foreign subsidiaries directly, provided the parent company guarantees these loans in a legally sound and enforceable manner.

(c) Organisation of the credit process
The organisation of the credit process has been tailored to the size of the Bank's lending business and its target groups, thus enabling us to process and evaluate counterparty risk in a professional and timely way in cooperation with the customer service officer, company analyst and back office.

The internal rating, the expert knowledge of those involved in the lending process and – if necessary – the collateral provided form the basis for the loan decision.

Before a loan is approved, the Bank examines the various options available for structuring a credit facility based on its customer's needs. Alongside bilateral credit lines, these include, for example, syndications or the issue of bonds.

Each credit risk must be assessed and classified annually, or more frequently where the credit quality class is lower, and subjected to the approvals procedure. There is an ongoing control adapted to the customer situation, particularly starting from a low credit quality. It is also examined to what extent the profitability of the customer relationship is adequate in proportion to the risk assumed. We also examine this based on global earnings ratios for customers with relationships to other HSBC units.

Non-performing, doubtful or problematic debts are dealt with intensively by or under the direction of a specialist organisational unit outside the market so that suitable measures to limit the risk can be taken early on.

We create net loan impairment and other credit risk provisions for existing default risks for debt instruments whose subsequent measurement is amortised cost or fair value through other comprehensive income (for example, loans and receivables, bonds), and for loan commitments extended and financial guarantees. Credit business is subject to internal auditing at regular intervals, both counterparty credit risk and the working practices and methods.

(d) Limits
In accordance with the statutory provisions (approval powers), the Management Board has duly delegated loan approval authority (differentiated by exposure, seniority of the person responsible and creditworthiness) 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.

A risk-limit system is used to help monitor the utilisation of credit facilities on a daily basis.

Loans involving sovereign risk are only to be granted within the framework of approved country limits. The Bank takes on country risk – with the exception of HSBC Group lines – only in connection with the customers' commercial business. The Bank's liquidity holdings are an exception. In each case, the principle of risk diversification is to be observed.

When assessing country risk, the Bank relies in particular on the global expertise of the HSBC Group and the assessment methods it uses.

The countries for which country limits have been established are therefore basically classified in the same way as at the HSBC Group. The country classification is based on a number of quantitative and qualitative risk indicators which are constantly updated and reviewed and evaluated once a year. The HSBC Group uses models to derive the classification from a country-specific overall score.

The plausibility of the classification and the assigned limits are reviewed regularly.

(e) Quantification of counterparty risk

The measurement and mitigation of counterparty risk for the purposes of risk management require the use of complex procedures and model valuations. The assessment of the risk associated with the loan exposure changes constantly depending on market developments and expectations, but also over time. The credit risk measurement is always based on expectations vis-à-vis expected defaults, and hence associated losses, as well as the correlation of any defaults in relation to other borrowers.

The counterparty risk is basically quantified by the determination of the following variables:

- Exposure
- Loss given default (LGD)
- Probability of default (PD)

Probabilities of default are estimated via the risk classification systems. Collateral is reflected in a reduced loss given default. The exposure itself corresponds to the outstanding loan amount in respect of cash advances. As regards the furnishing of financial guarantees, the exposure corresponds to the highest amount the Bank would have to pay in the event of a claim under the guarantee. The exposure in respect of lending commitments that cannot be revoked during their term, or only in the event of a significant negative market change, consists of the full amount committed. With derivatives, the exposure is determined as the expected positive market value at the point in time of a possible default by the counterparty.

The "exposure at default" (EAD) is determined by applying a loan conversion factor to the exposure, which represents the difference between the current exposure and the expected exposure in the event of a credit event. Exposure at default, loss given default and probability of default are used to determine both the expected and the unexpected loss on a loan exposure.

To measure expected credit losses, the exposure at default, the probability of default and the loss ratio on individual transactions are taken into consideration, and appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment are projected into the future and offset against one another. The probability of the loan exposure not defaulting or being repaid in the interim is also taken into consideration. The expected loss occurs on the date of determination as a result of discounting using the original effective interest rate or an approximation of the same.

The expected loss is determined for defaulted exposures individually by applying the present value method in relation to the cash flows still to be expected and in consideration of the probability-weighted scenarios.

The continued dynamic development of the COVID-19 infection gives rise to particular challenges with regard to the quantification of counterparty risk as at the reporting date 31 December 2020, as there is considerable forecast uncertainty regarding the further course of the pandemic and its economic effects. Consequently, the measurement of net loan impairment provision on the basis of expected credit losses involves increased uncertainties compared to previous reporting periods. This is explained in more detail in the following sections, especially in section (h).

(f) Risk classification procedure

The Bank uses a 23-stage rating system to classify the credit quality of its customers. We use five different rating systems which cover the customer groups international corporations, German MMEs, receivable finance (debtors), banks and financial service providers. These rating systems are supplemented by risk classification procedures for high net worth private customers. The assessment is always based on the individual borrower and not on the portfolio collectively.

The rating system for customers in 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 customer data. This is supplemented by an expert system for the qualitative evaluation of the customer and its economic environment by the responsible customer service officer. The rating system is completed by a set of rules for recognising liabilities within corporations.

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. HSBC's rating systems are supplemented by a qualitative evaluation of the companies and their economic environment by the responsible customer service officer and the local credit experts. This evaluation is supplemented by the statistical analysis of financial data and analysis of the sector and country risk.

The rating system for the receivable finance business was developed independently by the Bank. It is based on a statistical component that includes the key data, the debtor's payment record and external information in the customer assessment. The rating system is fully automated and does not include an additional qualitative component.

The Bank uses a ten-stage internal risk classification system to classify the credit quality of its customers in the private banking business. However, this system is of minor significance overall, as the lending business with high net worth private individuals is carried out on a collateralised basis as a rule.

The granular 23-stage internal rating system, the "Customer Risk Rating" (CRR), can be summarised in a ten-stage rating system and then transferred to the groups or quality classes shown here. To classify the internal ratings used by us, the following table shows the credit quality groups and the default risks for the twelve-month probability of default allocated to the CRR.

Credit quality categories	Default risk based on the internal rating scale	Ten-stage internal rating scale (customer risk rating)	Twelve-month probability of default – range in %
Very good credit quality	Minimal default risk	1	0.000 – 0.053
	Low default risk	2	0.054 – 0.169
Good credit quality	Satisfactory default risk	3	0.170 – 0.740
Moderate credit quality	Appropriate default risk	4	0.741 – 1.927
	Moderate default risk	5	1.928 – 4.914
Low credit quality	Increased credit quality	6	4.915 – 8.860
	High default risk	7	8.861 – 15.000
	Very high risk of default	8	15.001 – 99.999
Loan default	Loan default	9	100
		10	100

A corresponding allocation of external ratings (here from S&P) to the credit quality categories used for bonds and other fixed-income securities is outlined in the following overview. However, the internal rating is always decisive for the internal management, even if external ratings are available.

Credit quality categories	**External rating (Standard & Poor's)**		
	Governments and public-sector authorities	**Banks**	**Other borrowers**
Very good credit quality	AAA to BBB	AAA to A–	AAA to A–
Good credit quality	BBB– to BB	BBB+ to BBB–	BBB+ to BBB–
Moderate credit quality	BB– to B	BB+ to B	BB+ to B
Low default risk	B– to C	B– to C	B– to C
Loan default	D	D	D

Definition of the credit quality groups:

- CRR 1 and CRR 2 exposures: The net assets, financial position and results of operations of these customers, as well as their liquidity position, generation and management, are of the highest quality. Overall negligible to low probability of default.
- CRR 3 exposures: Customers with a satisfactory credit score and no negative tendencies. Good credit risk overall with comparatively low probability of default.
- CRR 4 exposures: Generally adequate creditworthiness with few indications of major financial risks. Existing weaknesses are acceptable within the overall profile. The probability of default is acceptable, but the exposure may need slightly increased monitoring due to the weaknesses identified.
- CRR 5 exposures: Customers with a still acceptable level of net assets, financial position and profitability. The overall profile does not give rise to immediate concerns, but there is a greater dependency on external events and market conditions. For this reason, the exposure may require increased monitoring.
- CRR 6, CRR 7 and CRR 8 exposures: Customers with generally weak to very weak net assets, financial position and profitability, as well as a limited to very limited liquidity situation or a continuing deterioration. Close risk management is required. Increased to significantly increased vulnerability to external events and market conditions that may, under certain circumstances, result in the customer being unable to meet their financial obligations. Increased to high probability of default overall.
- CRR 9 and CRR 10 exposures: Loan default pursuant to article 178 CRR has occurred.

All internal rating models are validated on an annual basis. Additional data from an external provider are used for the rating model for MME customers in particular in order to improve the quality of the validation. The internal rating models approved by the supervisory authorities are used for regulatory capital backing for international corporations, German MMEs, receivables finance (debtors), banks and financial service providers. The Bank takes the standard IRB approach for this, in which the customers' probability of default (PD) is assessed internally. The loss given default (LGD) and the exposure at default (EAD) are based on standard regulatory parameters. For better risk differentiation, the Bank uses internal models to estimate the loss given default (LGD) for the purpose of managing its economic risk-bearing capacity. The internal LGD model for corporate customers was further developed on the basis of the existing IFRS 9 model. Customers from the Global Private Banking segment, as well as governments and governmental institutions, are treated under the standard approach for regulatory capital backing.

The Global Risk Analytics division is responsible for the maintenance, monitoring and further development of the systems for measuring credit risk, especially the in-house MME rating system.

(g) Maximum default risk

The maximum default risk for financial instruments including loan commitments and financial guarantees as at 31 December 2020 is shown in the following table. The maximum default risk on a specific reporting date corresponds to the book value of the financial assets on the balance sheet, including the reported positive market values of derivative financial instruments on that date. Exchange-traded derivatives are generally not exposed to any default risk due to the margin system, but are included in the following table of this section for the sake of completeness. Collateral received and other credit improvements are not taken into account to mitigate risk in this presentation.

We report loans and advances to banks as well as loans and advances to customers in the Risk Report before the deduction of net loan impairment provisions.

	31.12.2020		31.12.2019	
	in €m	in %	in €m	in %
Loans and advances	**10,189.3**	**30.9**	**12,907.0**	**38.3**
to banks	1,567.7	4.8	1,987.2	5.9
to customers	8,621.6	26.2	10,919.8	32.4
Trading assets	**2,639.0**	**8.0**	**2,801.9**	**8.3**
Bonds and other fixed-income securities	647.5	2.0	853.4	2.5
Equities and other non-fixed-income securities	826.2	2.5	826.7	2.5
Tradable receivables	1,165.3	3.5	1,121.8	3.3
Positive market values from derivative financial instruments	**1,713.3**	**5.2**	**1,164.2**	**3.5**
Exchange-traded derivatives	526.0	1.6	190.3	0.6
OTC derivatives	1,183.6	3.6	970.0	2.9
Derivatives in hedging relationships	3.7	0.0	3.9	0.0
Financial assets	4,050.6	12.3	3,509.4	10.4
Bonds and other fixed-income securities	**3,950.6**	**12.0**	**3,405.1**	**10.1**
Promissory note loans	75.1	0.2	80.6	0.2
Investments	24.9	0.1	23.7	0.1
Other financial assets mandatorily measured at fair value through profit or loss	84.4	0.3	120.9	0.4
Bonds and other fixed-income securities	**37.9**	**0.1**	**62.1**	**0.2**
Hybrid financial instruments	19.3	0.1	34.6	0.1
Investment certificates	1.1	0.0	7.3	0.0
Investments	26.1	0.1	16.9	0.1
Contingent liabilities	**2,974.5**	**9.0**	**3,057.9**	**9.1**
Loan commitments	**11,303.6**	**34.3**	**10,099.8**	**30.0**
Total	**32,954.7**	**100.0**	**33,661.1**	**100.0**

Trading assets, positive market values from derivative financial instruments and financial assets requiring measurement at fair value through profit or loss are not subject to the IFRS 9 impairment provisions. Collateral arises only in connection with derivatives, which we show in the Notes "Deposits by Banks" and "Customer Accounts".

Netting agreements or agreements concerning guarantees for market values in the form of specific collateral are concluded specifically in the derivatives business.

With netting agreements, offsetting contracts with the same customer or counterparty can be netted against each other under certain conditions. These agreements significantly reduce the maximum default risk shown above. We refer to section (m) Collateral and other credit improvements for information about the collateral received for loans and receivables, contingent liabilities and loan commitments.

As at the balance sheet date, the Bank's maximum default risk breaks down by sector and region as follows:

	31.12.2020		31.12.2019	
	in €m	**in %**	**in €m**	**in %**
Risk concentration by sector				
Companies and self-employed professionals	20,555.3	62.4	21,570.2	64.1
Banks and financial institutions	9,055.8	27.5	8,756.0	26.0
Public sector	3,032.1	9.2	3,023.2	9.0
Employed private individuals	311.5	0.9	311.7	0.9
Total	**32,954.7**	**100.0**	**33,661.1**	**100.0**

The breakdown by sector shows that the maximum default risk exists essentially vis-à-vis companies and self-employed professionals on the one hand and banking organisations on the other.

Of the default risk to banks, €2,165.8 million (previous year: €2,427.0 million) is attributable to other HSBC Group units.

	31.12.2020		31.12.2019	
	in €m	**in %**	**in €m**	**in %**
Risk concentration by region				
Domestic	22,088.2	67.0	22,442.7	66.8
Other EU (plus Norway and Switzerland)	8,351.9	25.3	8,784.9	26.1
North America	1,407.9	4.3	1,091.4	3.2
Asia	566.1	1.7	779.6	2.3
Africa	378.5	1.1	411.3	1.2
South America	96.6	0.3	83.8	0.2
Rest of Europe	55.4	0.2	52.8	0.2
Oceania	10.1	0.0	14.6	0.0
Total	**32,954.7**	**100.0**	**33,661.1**	**100.0**

It can be seen from the breakdown by region that a substantial part of the maximum default risk is concentrated in Germany, as well as in EU countries plus Norway and Switzerland.

(h) Determining the risk provisioning requirements

Net loan impairment provision requirements are determined and recognised on the balance sheet on the basis of the expected loss model in accordance with IFRS 9. Assets (debt) that are carried at amortised cost or reported at fair value directly in equity showing the changes in value are affected by the regulations on the recognition of impairment under IFRS 9. Loan commitments and financial guarantees granted are also affected.

The reporting of impairments is based on a three-level model. Under IFRS 9, net loan impairment and other credit risk provisions in the amount of the 12-month expected credit losses are recognised for financial instruments in the event that the credit risk on the balance sheet date has not increased significantly since initial recognition and has not met the default definition at initial recognition (Level 1). Net loan impairment and other credit risk provisions in the amount of the lifetime expected credit losses are recognised for financial assets whose credit risk has increased significantly since initial recognition (Level 2) and for credit-impaired assets on the balance sheet date (Level 3). Purchased or originated credit impaired (POCI) financial assets are recognised at initial application, after deduction of the lifetime expected credit losses.

We use quantitative and qualitative criteria to assess whether a financial instrument shows an increased default risk since the time of recognition. In addition to qualitative criteria, such as principal or interest arrears of more than 30 days and inclusion in the list of exposures subject to closer monitoring, the primary quantitative indicator for determining the transition from Level 1 to Level 2 is the relative change in the expected probabilities of default since initial acquisition of the respective financial instrument.

In quantitative terms, we determine the changing credit risks of individual financial instruments on the basis of cumulative probabilities of default. To determine whether the credit risk has increased since the time of recognition, we compare the average one-year expected probability of default at the time of recognition with that at the reporting date (residual average term forward point-in-time PD). Information about part events, prevailing conditions and forecasts about the future economic environment in the form of different economic scenarios with weightings dependent on their expected probability of occurrence are included in the calculations.

There is a sharp increase in the credit risk, leading to financial instrument previously allocated to Level 1 being allocated to Level 2, if predefined thresholds that are based on expert estimates and validated at least once a year are reached or exceeded. In the case of customer risk ratings (CRRs) of 0.1 to 1.2 upon recognition, the probability is increased by 15 basis points and by 30 basis points for CRRs of 2.1 to 3.3. For CRRs over 3.3 that are not considered to have defaulted, the credit risk is assumed to have increased significantly if the probability of default has doubled since acquisition.

For financial instruments with an acquisition date before the date of initial application of IFRS 9, additional criteria depending on the CRR upon recognition are used in order to define a significant increase in the credit risk. In the case of a CRR of 0.2 upon recognition, a significant increase in the credit risks is assumed if the rating deteriorates by five rating grades. Depending on the initial rating, the following minimum deterioration of the rating grades lead to the assumption of a significant increase in the credit risk:

– Initial rating of 0.1	5 rating grades
– Initial rating of between 1.1 and 4.2	4 rating grades
– Initial rating of between 4.3 and 5.1	3 rating grades
– Initial rating of between 5.2 and 7.1	2 rating grades
– Initial rating of between 7.2 and 8.2	1 rating grade
– Initial rating of 8.3	0 rating grades

In qualitative terms, all loan exposures that are on the watch-worry-monitor list and have been allocated to the “watch” or “worry” categories are not considered to belong to Level 1 any longer. As a result, they are transferred to Level 2 or Level 3 if necessary. This concerns all exposures that have to be transferred from normal loan handling to special handling, because indicators determined for the early identification of risk, such as negative sector developments or negative reporting about a borrower, point to increased credit risk in advance. We refer to section (l) Adjustment of contractual cash flows of financial assets (modifications) for any modifications.

In addition, interest or principal payments overdue by more than 30 days are considered to be an additional security mechanism (backstop) to determine a significant increase in the credit risk. We generally do not use the option to refute this assumption as presented in the financial reporting standards. Similarly, we do not use the exemptions for financial instruments with low credit risk (low credit risk exemption).

A return from Level 3 to a better level is generally possible. However, this requires that the default definition has no longer been met consistently for a period of up to twelve consecutive months.

The assessment of counterparty risk is based on appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment, provided they are significant for assessing expected credit defaults.

Three forward-looking scenarios are generally taken into consideration. The average expected performance of the economic environment represents the central scenario. In addition, two alternative scenarios are generally taken into consideration: one scenario that expects the economic environment to develop more favourably than expected (upside scenario) and another where the economic environment is expected to develop less favourably (downside scenario). Should circumstances require it, additional scenarios are developed and used to assess counterparty risk. However, we generally assume that the potential, non-linear development of the economic environment can be mapped appropriately with these three scenarios.

Overall, the methodical, procedural and systems-based implementation of the provisions on the recognition of impairments in the amount of the expected credit losses is also largely based on the expertise within the HSBC Group. The underlying scenarios for measuring risk are developed from different forecasts of independent sources (such as central banks, Oxford Economics) by an expert team at the HSBC Group involving external, independent advisors. Their relative importance and weighting for the subsequent actions are also determined.

The scenarios are generally based on a five-year forecast period starting from the balance sheet date (point- in-time approach). The central scenario is developed in two steps: In the first steps, central economic indicators, specifically gross domestic product (GDP) development, the unemployment rate and real estate price growth are determined for HSBC's key markets. On this basis, a large number of additional indicators are derived in a second step using established economic and industry-specific models. Finally, the expected development necessary for the risk measurement is modelled, taking into account country-specific features. The upside and downside scenarios are drawn up on this basis. The opportunities and risks of a potential positive or negative development tend to be overstated, and possible non-linear developments are taken into consideration on the basis of model calculations, empirical values and risk assessments.

The central scenario is updated every quarter and the other two scenarios generally on an annual basis, provided the macroeconomic or political developments do not require an interim update.

However, due to the COVID-19 pandemic, the expectations relating to the development of the economic indicators have changed significantly compared to the previous year. While the COVID-19 pandemic did not play a significant role in the scenarios used as at the previous year's reporting date, the outbreak of the pandemic since the first quarter of 2020 has resulted in a profound adjustment to the assessment of economic development over the next five years. In view of the deterioration of the overall economic situation and the current uncertainties, the frequency for updating the scenarios relevant to the measurement of net loan impairment provisions was also increased in the course of 2020.

In order to take account of the uncertainties and the higher significance of the net loan impairment provision of Levels 1 and 2 that this involves, all scenarios were updated on a quarterly basis in 2020.

When measuring the net loan impairment provisions for these levels, we take into account forward-looking scenarios for key economic indicators. For the HSBC Trinkaus & Burkhardt Group, these are currently the developments in gross domestic product, the unemployment rate and the equity markets. At the same time, the uncertainty of forecasts is currently unusually high due to a whole range of factors. These include the further development of the spread of COVID-19, the medium-term effects on global trade and the effectiveness of government support measures in combating the economic effects of COVID-19. Against this background, the severe downside scenario was developed in 2020 as an additional economic scenario and included in the measurement of net loan impairment provisions in order to take sufficient account of the imponderables of the development of the COVID-19 pandemic.

The forecasts for future economic conditions affect the determination of PDs and LGDs. When calculating the PD, the forecast of the economic development is reflected in the default probabilities of specific industries in the respective countries. When calculating the LGD, this impacts in particular on the collateral value and its recovery options.

The scenarios used to measure net loan impairment provisions in the consolidated financial statements as at 31 December 2020 are described below:

The scenario with the highest weighting is the central scenario (weighting: 65%; previous year: 80%), which reflects our predominant expectation of the development of the parameters. This is based on the assumption of a relatively sharp decline due to the global efforts to contain the COVID-19 pandemic and the multiple restrictions they entail, followed by a relatively rapid recovery of the economy assuming that further restrictions will be less limiting and more spatially focused, thereby allowing for a swift economic recovery. In this scenario, we assume an average annual GDP growth rate of +4.2% in 2021, +2.6% in 2022 and an average of +1.6% for the years 2023 to 2025 (previous year: –5.6%). We expect the worst average GDP growth to be –1.5% in the first quarter of 2021. For the unemployment rate, an average level of 6.17% in 2021, 5.91% in 2022 and 5.64% on average for the years 2023 to 2025 (previous year: 5.98%) is assumed. We expect the highest unemployment rate to be 6.26% in the first quarter of 2021. In this scenario, equity markets are subject to an average annual growth rate of +4.5% in 2021, +1.7% in 2022 and +3.0% on average for the years 2023 to 2025 (previous year: +1.4%). At –0.5%, the worst average annual growth rate on the equity market in this scenario is recorded in the third quarter of 2021.

The upside scenario (weighting: 10%, previous year: 10%) assumes development of economic conditions that is expected to be slightly more favourable than in the central scenario. This scenario is based on the assumption that economic recovery is comparatively faster in the first two years after the outbreak of the COVID-19 pandemic before subsequently resuming its long-term pre-pandemic trends. Among other things, this scenario envisages the development of a vaccine against COVID-19, continued support for the economy through policy frameworks and de-escalation with regard to global trade conflicts. Here, we assume, as at the reporting date, an average annual growth rate of gross domestic product of +6.1% in 2021 and +4.1% in 2022. The unemployment rate is expected to average 5.57% in 2021 and 5.18% in 2022. The stock markets are subject to an average annual growth rate of +21.2% in 2021 and +10.5% in 2022.

The downside scenario (weighting: 15%, previous year: 10%) assumes development of economic conditions that is expected to be comparatively less favourable than in the central scenario. This scenario is based on the assumption that the economic slump caused by the COVID-19 pandemic will be comparatively more severe and that economic recovery will take longer before it returns to the long-term trends seen before the pandemic. Among other things, this scenario sees the economic recovery being delayed by further COVID-19 outbreaks, restrictions lasting longer and being more restrictive as compared to the central scenario, and global trade conflicts widening. Here, we assume, as at the reporting date, an average annual growth rate of gross domestic product of +1.2% in 2021 and +1.1% in 2022. The unemployment rate is expected to average 6.61% in 2021 and 6.67% in 2022. The stock markets are subject to an average annual growth rate of –21.3% in 2021 and –20.4% in 2021.

Meanwhile, the severe downside scenario (weighting: 10%; previous year: not included), which was developed due to the COVID-19 pandemic, assumes a significantly later recovery of the economy and allows for a more extreme manifestation of potential risks to further economic development. This scenario is based on the assumption that the economic slump, especially due to the COVID-19 pandemic, will lead to a very severe, long-term global recession and that an economic recovery will take many years. Here, we assume an average annual growth rate of gross domestic product of –3.5% in 2021 and +2.4% in 2022. The unemployment rate is expected to average 8.23% in 2021 and 8.87% in 2022. The stock markets are subject to an average annual growth rate of –39.5% in 2021 and –11.4% in 2022.

The weighting of the individual scenarios is expert-based. Based on this weighting, this results in loan loss provisions for Levels 1 and 2 of €46.1 million.

Management has looked at possible other weightings of the scenarios used in order to better assess the impact on the level of net loan impairment provisions. A 100 % weighting of the respective scenarios would result in the following net loan impairment provision requirement, whereby the credit exposures of Level 3 were disregarded for this sensitivity analysis:

- Central scenario: €36.7 million;
- Upside scenario: €32.8 million;
- Downside scenario: €49.2 million;
- Severe downside scenario: €115.5 million.

The potential net loan impairment provision requirement indicated here is not to be interpreted as a maximum or minimum net loan impairment provision requirement. Rather, this information is intended to help assess the possible effects of changes in the general conditions on net loan impairment provisions.

The determination of expected loan losses is, by its nature, a sub-area of accounting that is subject to significant estimation uncertainty and discretionary decisions. In particular against the backdrop of the COVID-19 pandemic, the degree of estimation uncertainty in the assessment of net loan impairment provisions, as well as in the exercise of discretionary decisions in this regard, has increased significantly compared to the same period of the previous year. This is mainly due to the fact that the models developed for measuring net loan impairment provisions on the basis of expected loan losses were not able to account for the current effects of a global pandemic, largely unknown up to then, in the absence of empirical values in this regard. Equally new are the current measures undertaken to support the economy by policymakers and central banks.

When measuring the net loan impairment provisions as at 31 December 2020, we made a post-model adjustment to the amount of the net loan impairment provisions. We make such adjustments if new circumstances or changed framework conditions occur or are anticipated that could no longer be adequately taken into account within the framework of the model-based quantification of counterparty risk, or if situations occur that cannot be adequately covered by the existing credit risk models, for example because no sufficient empirical values exist yet based on comparable situations. The use of downstream adjustments is carried out within the framework of existing intra-group rules and is reduced or made obsolete where possible through the further development and recalibration of the credit risk models.

The current COVID-19 pandemic and its impact make for a situation where both the lack of observable past-related data for comparable situations and the erratic evolution of the pandemic may require downstream adjustments. After quantifying the counterparty risk as at 31 December 2020 based on existing credit risk models, it was determined in connection with the quality assurance measures that the latest political restrictions to contain the pandemic (lockdown) and their economic effects are not sufficiently taken into account in the scenarios underlying the net loan impairment provisions. The subsequent consideration of these circumstances was based on expert estimates and scenario calculations. These primarily affect the credit exposures for corporate customers when determining the net loan impairment provisions for exposures in Levels 1 and 2. The effects on exposures to credit institutions and financing institutions, as well as to public budgets, are comparatively low. Overall, compared to the original quantification of the net loan impairment provisions, there is an increase in the net loan impairment provision requirement of €9.2 million. Of this amount, €6.7 million is attributable to credit exposures to corporate customers (Level 1: €2.7 million, Level 2: €4.0 million), €1.8 million to credit institutions and financing institutions (Level 1: €1.5 million, Level 2: €0.3 million) and €0.7 million to public budgets (Level 1: €0.7 million, Level 2: €0.0 million).

Significant discretionary decisions were required in connection with the measurement of net loan impairment provisions. These essentially consist of the following:

- the selection and weighting of scenarios for future economic development against the backdrop of the currently rapidly changing economic conditions and the support measures granted by policymakers and central banks to an as yet unknown extent, whereby in particular the severity of the impact of the pandemic on the economy, the duration of the economic burden and the manner of economic recovery constitute significant discretionary decisions;

- the assessment of the economic impact of the scenarios on the measurement of net loan impairment provisions based on expected loan losses, insofar as no observable historical data can be used to objectify the credit risk models used (because the severity and development of the change in economic conditions in the current pandemic are largely unknown to date, for example) and therefore the modelling of the relationship between the development of the economic parameters and the net loan impairment provisions can lead to an overestimation or underestimation of the expected loan losses;

- the identification of credit exposures for which a significant increase in credit risk and, where applicable, a default of the credit exposure has since occurred, especially in cases where the short-term solvency of the borrower is secured by agreed deferment of payment or other support measures, which may, however, conceal existing structural problems of the borrower.

Not least because of the increased estimation uncertainties and significant discretionary decisions described above, it should be noted that a significant additional net loan impairment provision requirement is to be expected in the event of a significant deterioration in the forecasts for future economic development.

(i) Credit quality of the financial instruments
The following overviews show the credit quality of the financial instruments that are subject to the IFRS 9 impairment provisions, broken down by the three levels and the related net loan impairment provisions. In addition, the credit quality of the debt instruments at fair value without effect on the income statement is shown on the respective reporting dates.

We did not hold any purchased or originated credit impaired (POCI) financial assets during the period under report.

Financial instruments measured at amortised cost:

31.12.2020 in €m	Gross book value/nominal amount						Net loan impairment provision	Net book value/ nominal amount
Balance sheet item/level	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total		
Loans and advances to banks	1,344.2	32.4	186.7	4.4	0.0	1,567.7	0.2	1,567.5
Level 1	1,344.2	27.9	186.0	4.4	0.0	1,562.5	0.2	1,562.3
Level 2	0.0	4.5	0.7	0.0	0.0	5.2	0.0	5.2
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	2,215.5	2,658.9	2,923.1	497.3	326.8	8,621.6	104.8	8,516.8
Level 1	2,215.5	2,068.5	1,800.2	211.3	0.0	6,295.5	5.0	6,290.5
Level 2	0.0	590.4	1,122.9	286.0	0.0	1,999.3	23.4	1,975.9
Level 3	0.0	0.0	0.0	0.0	326.8	326.8	76.4	250.4
Contingent liabilities	885.4	1,087.1	769.9	141.3	90.8	2,974.5	2.5	2,972.0
Level 1	885.4	792.9	413.7	16.2	0.0	2,108.2	0.4	2,107.8
Level 2	0.0	294.2	356.2	125.1	0.0	775.5	0.8	774.7
Level 3	0.0	0.0	0.0	0.0	90.8	90.8	1.3	89.5
Loan commitments	5,553.1	3,318.4	2,104.7	235.8	91.6	11,303.6	10.6	11,293.0
Level 1	5,553.1	1,858.1	870.3	29.8	0.0	8,311.3	2.1	8,309.2
Level 2	0.0	1,460.3	1,234.4	206.0	0.0	2,900.7	8.5	2,892.2
Level 3	0.0	0.0	0.0	0.0	91.6	91.6	0.0	91.6
Total	**9,998.2**	**7,096.8**	**5,984.4**	**878.8**	**509.2**	**24,467.4**	**118.1**	**24,349.3**

31.12.2019 in €m	Gross book value/nominal amount						Net loan impairment provision	Net book value/ nominal amount
Balance sheet item/level	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total		
Loans and advances to banks	1,806.3	73.6	107.3	0.0	0.0	1,987.2	0.2	1,987.0
Level 1	1,806.3	73.6	102.1	0.0	0.0	1,982.0	0.2	1,981.8
Level 2	0.0	0.0	5.2	0.0	0.0	5.2	0.0	5.2
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to customers	3,660.4	3,362.8	3,420.4	261.0	215.2	10,919.8	53.3	10,866.5
Level 1	3,660.4	3,353.5	2,894.2	106.1	0.0	10,014.2	1.7	10,012.5
Level 2	0.0	9.3	526.2	154.9	0.0	690.4	4.9	685.5
Level 3	0.0	0.0	0.0	0.0	215.2	215.2	46.7	168.5
Contingent liabilities	1,227.1	1,028.0	530.2	268.8	3.8	3,057.9	1.0	3,056.9
Level 1	1,227.1	1,022.0	403.2	110.7	0.0	2,763.0	0.2	2,762.8
Level 2	0.0	6.0	127.0	158.1	0.0	291.1	0.2	290.9
Level 3	0.0	0.0	0.0	0.0	3.8	3.8	0.6	3.2
Loan commitments	4,305.2	4,188.8	1,507.0	89.9	8.9	10,099.8	10.3	10,089.5
Level 1	4,305.2	4,013.5	1,095.9	6.0	0.0	9,420.6	0.6	9,420.0
Level 2	0.0	175.3	411.1	83.9	0.0	670.3	1.4	668.9
Level 3	0.0	0.0	0.0	0.0	8.9	8.9	8.3	0.6
Total	**10,999.0**	**8,653.2**	**5,564.9**	**619.7**	**227.9**	**26,064.7**	**64.8**	**25,999.9**

Debt instruments at fair value through other comprehensive income:

31.12.2020

in €m	Fair value						Net loan impairment provision
Balance sheet item/level	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total	
Financial assets	3,784.8	197.0	43.9	0.0	0.0	4,025.7	5.7
Level 1	3,784.8	158.1	30.9	0.0	0.0	3,973.8	4.6
Level 2	0.0	38.9	13.0	0.0	0.0	51.9	1.1
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

31.12.2019

in €m	Fair value						Net loan impairment provision
Balance sheet item/level	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total	
Financial assets	3,034.8	376.5	74.4	0.0	0.0	3,485.7	1.1
Level 1	3,034.8	347.6	65.8	0.0	0.0	3,448.2	0.4
Level 2	0.0	28.9	8.6	0.0	0.0	37.5	0.7
Level 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Debt instruments measured at fair value through profit or loss:

31.12.2020

in €m	Fair Value					
Balance sheet item	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total
Trading assets	1,812.3	0.0	0.5	0.0	0.0	1,812.8
Other financial assets mandatorily measured at fair value through profit or loss	2.1	17.2	18.6	0.0	0.0	37.9

31.12.2019

in €m	Fair Value					
Balance sheet item	Very good credit quality	Good credit quality	Moderate credit quality	Low credit quality	Loan default	Total
Trading assets	1,892.1	0.0	83.1	0.0	0.0	1,975.2
Other financial assets mandatorily measured at fair value through profit or loss	2.2	36.8	23.1	0.0	0.0	62.1

(j) Development of net loan impairment and other credit risk provisions

Net loan impairment and other credit risk provisions compared with the gross book values and nominal amounts of the loan exposure in 2020 are shown in the following table taking into account the allocation to the levels. Please see the Note "Net Loan Impairment and Other Credit Risk Provisions" for information on the evolution of the net loan impairment and other credit risk provisions.

31.12.2020	Gross book value/nominal amount in €m				Net loan impairment provision in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	1,562.5	5.2	0.0	1,567.7	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Loans and advances to customers	6,295.5	1,999.3	326.8	8,621.6	5.0	23.4	76.4	104.8	0.1	1.2	23.4	1.2
Contingent liabilities	2,108.2	775.5	90.8	2,974.5	0.4	0.8	1.3	2.5	0.0	0.1	1.4	0.1
Loan commitments	8,311.3	2,900.7	91.6	11,303.6	2.1	8.5	0.0	10.6	0.0	0.3	0.0	0.1
Total	**18,277.5**	**5,680.7**	**509.2**	**24,467.4**	**7.7**	**32.7**	**77.7**	**118.1**	**0.0**	**0.6**	**15.3**	**0.5**

31.12.2019	Gross book value/nominal amount in €m				Net loan impairment provision in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and advances to banks	1,982.0	5.2	0.0	1,987.2	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Loans and advances to customers	10,014.2	690.4	215.2	10,919.8	1.7	4.9	46.7	53.3	0.0	0.7	21.7	0.5
Contingent liabilities	2,763.0	291.1	3.8	3,057.9	0.2	0.2	0.6	1.0	0.0	0.1	15.8	0.0
Loan commitments	9,420.6	670.3	8.9	10,099.8	0.6	1.4	8.3	10.3	0.0	0.2	93.3	0.1
Total	**24,179.8**	**1,657.0**	**227.9**	**26,064.7**	**2.7**	**6.5**	**55.6**	**64.8**	**0.0**	**0.4**	**24.4**	**0.2**

31.12.2020	Fair value in €m				Net loan impairment provision in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	3,973.8	51.9	0.0	4,025.7	4.6	1.1	0.0	5.7	0.1	2.1	0.0	0.1

31.12.2019	Fair value in €m				Net loan impairment provision in €m				Net loan impairment provision coverage in %			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets	3,448.2	37.5	0.0	3,485.7	0.4	0.7	0.0	1.1	0.0	1.9	0.0	0.0

Against the background of the considerable uncertainties that exist not least due to the COVID-19 pandemic with regard to the future development of the global economy in general and the German economy in particular, it should be noted that a significant additional risk provisioning requirement is to be expected in the event of a significant deterioration in the forecasts for future economic development.

(k) Loans and advances which are overdue, but not impaired

The Bank's loans and advances which have not been impaired although overdue amounted to €153.9 million on the balance sheet date (previous year: €209.2 million) and existed exclusively vis-à-vis customers. Of that amount, €147.4 million (previous year: €179.6 million) is the result of the purchase of credit-insured accounts receivable in the factoring business. The fair value of the collateral stood at €132.7 million (previous year: €161.9 million), €132.7 million of which (previous year: €161.7 million) was attributable to the factoring business. We have not carried out a corresponding impairment, as we assume that the loans can be repaid in full. Of the overdue, but not impaired loans and advances, €144.1 million is less than 31 days overdue, and €9.8 million between 31 days and 90 days overdue.

(l) Adjustment of contractual cash flows of financial assets (modifications)

In exceptional cases, the contractually agreed cash flows of financial assets are adjusted during the contract term. Possible reasons for such contract modifications include in particular renegotiations against the background of a change in the meantime to the economic parameters or financial difficulties experienced by the borrower. For 2020, it should be noted that some of the contract adjustments made during the year were related to the outbreak of the COVID-19 pandemic. However, not all contract adjustments made under these difficult economic conditions or the support measures and expedients taken advantage of from the borrower's point of view – such as the deferral of interest and/or redemption payments – reflect the borrower's financial difficulties and therefore a significantly increased credit risk; in some cases, they are simply the result of a temporary liquidity bottleneck. This distinction, to be drawn based on a holistic assessment of the credit exposure, is of fundamental importance in terms of the further servicing of the borrower.

In the event of short-term liquidity bottlenecks, we work with the borrower to find ways of overcoming the situation based on suitable measures. In the event that the borrower experiences financial difficulties, existing credit agreements are restructured in such a way that the Bank grants concessions to a customer that it would not have been prepared to give under other circumstances, because of the customer's financial problems, in order to bring about maximum loan repayment overall under the given circumstances. Measures taken in this respect include, for example, a deferral of payments due in order to make it easier to meet the contractual obligations for a limited period of time, whereby amounts unpaid during the deferral period have to be settled again at a later point in time. Other contractual modifications can include the extension of payment targets or changes to interest rates or margins. Such changes to contractual cash flows are only made if the management assumes that, in applying established loan restructuring processes and practices, the borrower will very likely be able to meet its obligations under the modified contractual terms.

If certain payments default fully or partially as a result of contractual modifications, the corresponding claims are written off and, if necessary, a gain or loss is recognised from the disposal of financial assets measured at amortised cost. The same shall apply to the case where the contractual modification is so significant that it is necessary to write off the original financial asset and recognise a new financial asset. To assess the materiality of such a contract modification, we use qualitative and quantitative criteria conforming to the derecognition requirements of IFRS 9. If the contract modification does not lead to the write-off of the financial asset, any material effect on earnings from the modification, calculated as the difference between the book value before contract modification and the present value of the cash flows of the adjusted contract, is recognised through profit or loss directly.

The material adjustment of contractually agreed cash flows from loan agreements whose borrowers are in financial difficulties lead directly and in every case to a downgrade to CRR 9, resulting in an allocation to Level 3 with the corresponding impact on the measurement of the expected credit losses and net loan impairment and other credit risk provisions. Such problem loans are managed from then on by a specialist organisational unit for the restructuring and recovery of loans. The aforementioned rules for the reporting of impairments are also applied to these loan exposures. A prerequisite for a return from Level 3 to a better level is that the borrower in question meets its payment obligations for a period of at least twelve consecutive months under the modified contractual terms. During the period under review, one contract modification was made to a loan agreement where the borrower experienced financial difficulties in the past and was later transferred to Level 1 due to the continuous compliance with the modified contractual terms (IFRS 7.35J (b)).

As at 31 December 2020, loans and advances to customers included financial assets of €348.7 million (previous year: €182.6 million) whose contractual terms were modified.

Overall, the contractual terms of loans and advances to clients with a book value before contract modification of €283.4 million (previous year: €156.3 million) were modified during the period under review. The resulting net loss of €31.7 million (previous year: €0.5 million) in 2020 is recognised as a share of the risk provisioning in the lending and securities business.

(m) Collateral and other credit improvements

The collateralisation of loan exposures represents an important measure for securing the (extensive) repayment of loan exposures. However, the emphasis in the lending process or the decision as to whether to grant a loan is not placed primarily on collateral or other credit improvements, such as guarantees. Rather, it is standard practice for the lending decisions to be made on the basis of the ability of the respective borrower to meet the contractual obligations, especially to make interest and redemption payments. Depending on the customers' credit standing and type of product, credit facilities may also be granted without the provision of collateral. In the traditional lending business, the provision of collateral is agreed in principle where necessary, especially with long-term financing, borrowers with weaker credit ratings or pure loans against securities. For the case that a borrower defaults, the Bank also avails if necessary of the option to realise the collateral and thus reduce the loan exposure. There were no material changes to our collateral policy and practices in the year under report. The following tables show the correlation between the maximum default risk in the credit portfolio and the financial collateral received depending on the allocation to the levels. Any costs incurred in realising the collateral are not taken into account.

The Bank 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 the orderly furnishing of the collateral is also monitored.

Where financial guarantees are assumed, the accounts and securities accounts pledged are recorded in the IT system and valued daily. The key data of the guarantees are linked by the system 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 if necessary by making decisions in individual cases (e.g. to avoid cluster risks). If no standard loan-to-value ratios are defined for certain securities, an individual decision is made with the help of the person responsible for the loan as to whether and to what extent they can be recognised as collateral.

in €m	31.12.2020				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Level 1	**1,562.5**	**6,295.5**	**2,108.2**	**8,311.3**	**18,277.5**
of which uncollateralised	1,476.5	4,749.6	2,030.8	7,803.7	16,060.6
of which fully collateralised	84.4	1,043.2	19.1	0.0	1,146.7
of which partly collateralised	1.6	502.7	58.3	507.6	1,070.2
Amount of partial collateralisation (Level 1)	1.2	325.5	27.7	396.4	750.8
Level 2	**5.2**	**1,999.3**	**775.5**	**2,900.7**	**5,680.7**
of which uncollateralised	5.2	987.3	750.0	2,559.2	4,301.7
of which fully collateralised	0.0	776.2	6.6	0.2	783.0
of which partly collateralised	0.0	235.8	18.9	341.3	596.0
Amount of partial collateralisation (Level 2)	0.0	168.0	3.8	281.5	453.3
Level 3	**0.0**	**326.8**	**90.8**	**91.6**	**509.2**
of which uncollateralised	0.0	219.6	90.8	91.6	402.0
of which fully collateralised	0.0	1.7	0.0	0.0	1.7
of which partly collateralised	0.0	105.5	0.0	0.0	105.5
Amount of partial collateralisation (Level 3)	0.0	78.2	0.0	0.0	78.2

in €m	31.12.2019				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Level 1	**1,982.0**	**10,014.2**	**2,763.0**	**9,420.6**	**24,179.8**
of which uncollateralised	1,906.6	7,745.6	2,656.1	8,634.9	20,943.2
of which fully collateralised	3.7	1,368.9	39.8	3.7	1,416.1
of which partly collateralised	71.7	899.7	67.1	782.0	1,820.5
Amount of partial collateralisation (Level 1)	57.6	598.7	16.4	600.1	1,272.8
Level 2	**5.2**	**690.4**	**291.1**	**670.3**	**1,657.0**
of which uncollateralised	5.2	406.5	200.8	516.5	1,129.0
of which fully collateralised	0.0	190.9	88.3	0.0	279.2
of which partly collateralised	0.0	93.0	2.0	153.8	248.8
Amount of partial collateralisation (Level 2)	0.0	80.2	1.5	140.7	222.4
Level 3	**0.0**	**215.2**	**3.8**	**8.9**	**227.9**
of which uncollateralised	0.0	202.8	3.2	8.9	214.9
of which fully collateralised	0.0	0.0	0.0	0.0	0.0
of which partly collateralised	0.0	12.4	0.6	0.0	13.0
Amount of partial collateralisation (Level 3)	0.0	4.7	0.6	0.0	5.3

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 and we are satisfied with the quality of 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 of the guarantor. By contrast, physical collateral (assigned receivables and rights and transfers of title to objects as security) is valued based on its special features in each individual case, taking all of the relevant risk parameters 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 and the volatility of the market values are also taken into consideration in the valuation. Depending on the result of this analysis, a valuation markdown is determined for each collateral received.

Land charges should be within a loan-to-value ratio of 60% (in individual cases up to 65%) of the 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. Guarantees from private loan insurers represent an essential basis for the receivable finance business and are taken into account in the amount of the claims insured in each case.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after three years as a rule. 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.

In the year under review, measures to stabilise the economy were introduced by the public sector on an unprecedented scale against the backdrop of the COVID-19 pandemic. The stabilisation measures are designed to mitigate the adverse effects of the pandemic and the associated economic consequences. The spectrum of these measures ranges from liquidity assistance to support and aid programmes, such as those of KfW Bankengruppe. As at 31 December 2020, loans totalling €52.7 million had been drawn by our customers under the relevant aid programmes (KfW-Unternehmerkredit Sonderprogramm, LfA-Corona-Schutzschirm), the contractual terms of which provide for 80 % to 90 % risk assumption in the form of a release from liability in favour of the lending bank. Furthermore, as at 31 December 2020, there were customer loans amounting to €46.6 million that were fully or predominantly secured by a federal and/or state guarantee given in connection with the COVID-19 pandemic.

With regard to the collateral already in place before the pandemic, there were no significant changes in the quality or value of the collateral received and other credit enhancements, as in the previous year.

As at 31 December 2020, no net loan impairment and other credit risk provisions had been created for Level 3 loans and receivables with a book value of €61.8 million (previous year: €91.3 million). In light of the soundness and realisability of the collateral received for these loan commitments, the outstanding loans are expected to be repaid in full.

Collateral and other credit improvements amounting to €20.0 million were realised or drawn on in the 2020 financial year (previous year: €4.4 million).

(n) Credit portfolio management
The WCMR department is responsible for providing the economic risk-weighted assets of the credit positions, as well as the analysis of the credit risk on portfolio level. For this purpose, the Bank uses the RiskFrontier credit portfolio model also used in the HSBC Group, which takes both correlation risks within countries, sectors and groups and changes in value due to migration risks into consideration based on the Merton approach and a multi-factor correlation model. The risk analysis of the credit portfolio with RiskFrontier is carried out on the reporting date at the end of the quarter, and its results are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

A simplified portfolio model based on the credit risk measurement systems established within the scope of the IRBA report is used for the daily monitoring of the credit risk limits between the quarterly reporting dates. To allow for correlation and migration risk in daily monitoring, a scaling factor between RiskFrontier and the simplified portfolio model is derived based on the quarterly calculation and applied to the results of the simplified model.

(o) Stress test
Both the regulatory and the economic risk calculation 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 WCRM team involving the business divisions. There is extremely close cooperation with respect to both methods and scenarios with the HSBC Group here as well.

Operational Risk

When it comes to operational risk, a distinction is made between operational risk in the narrower sense and operational risk in the wider sense.

We define "operational" risk as the risk of not achieving the objective of our strategy or goals due to the inadequacy or failure of internal processes, people and systems, or due to external events. Operational risk is relevant in every area of business and covers a wide range of problems. Losses resulting from fraud, unauthorised activities, errors, omissions, inefficiencies or internal events fall under the definition of operational risk.

All non-financial risks in the HSBC taxonomy are subsumed under operational risks: Financial Reporting and Tax Risk, Resilience Risk, Financial Crime and Fraud Risk, People Risk, Regulatory Compliance Risk, Legal Risk and Model Risk.

The Operational Risk Working Group is responsible for the control of operational risks across the board within the Bank and meets every two months chaired by the Chief Risk Officer. It 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 & Burkhardt Group.

The Working Group stipulates the guidelines and standards for monitoring the internal control environment and is responsible for the further development of the methods, systems and processes of operational risk management. Its key tasks also include monitoring the risk profile throughout the Bank and introducing suitable measures if the risk profile moves outside the set framework.

The Management Board attaches major importance to practising a risk culture in which risk is not only identified at an early stage, but also reported directly and openly. The awareness of operational risk has increased significantly among all employees in recent years. Information concerning operational risk is included in the daily decision-making processes.

Noting the minutes and holding regular discussions about important circumstances in the Bank's Risk Management Meeting ensures that all members of the Management Board are informed continuously about current developments and of the Bank's risk profile.

The Bank deploys various instruments within the scope of managing operational risk: analysing internal events helps to draw lessons from past mistakes and to intercept existing process and control weaknesses. Audit reports provide valuable evidence of process and system weaknesses. The observation of external events helps to identify hitherto-unknown process and control weaknesses, as well as risks which have arisen at other banks at an early stage, and to avoid similar events affecting HSBC Trinkaus & Burkhardt.

One central method of proactively determining material risk is known as "risk and control assessment". As part of a structured process, the core risks, including the key controls for each division or process that is significant from a risk perspective, are identified and documented in a central IT system. The process comprises assessing the inherent risk before allowing for the effectiveness of the control environment on the one hand and the residual risk after allowing for the effectiveness of the key controls implemented on the other. During the assessment, plausible scenarios which may arise within the next twelve months are observed and examined with regard to their probability of occurrence and the extent of the loss. Direct financial costs and indirect effects on customer service, reputation as well as supervisory consequences are taken into consideration when assessing the extent of the loss. By applying a standard risk prioritisation matrix, the risks are prioritised on this basis. If it turns out that the residual risk lies outside the Bank's defined appetite for risk in individual cases, the person responsible for risk must transfer or formally accept the risk if the risk cannot be brought back within the limits of the appetite for risk within twelve months by taking suitable measures. Any acceptance must be approved by the Bank's Risk Management Meeting.

Another important instrument in managing operational risk is conducting the top-down process, the objective of which is identifying and evaluating the largest operational risks and determining corresponding 1-in-100 scenarios. Top risks are the operational risks with the greatest impact on the business divisions and subsidiaries, which are calculated within the scope of a top-down approach.

The Bank minimises operational risk via the constant control of working processes, security measures and not least the employment of highly qualified staff. Operational risk is also partly covered by insurance. The processes within the Bank are regularly analysed and improved on an ongoing basis. In particular, the Operational Risk and Resilience Risk unit is also involved in the development and approval of new products and services in order to ensure that operational risks are identified early on and minimised via suitable measures.

In 2016, the Düsseldorf public prosecutor's office initiated an investigation into the Bank's alleged involvement in cum-ex transactions. In 2020, a number of rulings were issued, unconnected with the Bank, according to which it cannot be ruled out that expenses may be incurred in this context in the future. It is not possible to quantify these expenses from today's perspective.

HSBC Germany continues monitoring developments relating to the coronavirus very closely and liaising with government representatives and the health authorities. Our top priorities are the health and well-being of our customers and employees. We also ensure that business operations function properly and are resilient to external influences. We have well-practised emergency procedures in place to ensure that critical processes are maintained. These include agreements on site sharing and working from home, international travel restrictions and self-quarantine regulations for employees. We have also further raised our employees' awareness of the need for important hygiene measures. The relevant aids are made available.

It has been shown that the transition to working from home has been virtually seamless for up to 90 % of employees. The necessary infrastructure (such as expansion of the bandwidth for dialling in for those working from home) was expanded at the very beginning of the pandemic. A video conferencing tool has been increasingly used successfully for internal and external communication. This tool was subjected to strict due diligence by third parties, including security checks, as well as technical and architectural checks on cybersecurity. HSBC tool deployment is configured to meet the latest recommendations from the manufacturer – including default settings, additional security settings and installation of the latest updates and versions. HSBC retains administrative control of the HSBC tool version.

A task force has been set up to deal with process adjustments required in connection with the new work situation within the Bank and with our customers. Any acute process adjustments that have been required or are required due to the impact of the pandemic, including the definition of mitigating measures, are carefully reflected and considered by various relevant parts of the Bank. An ongoing inventory of the temporary regulations and mitigating measures that have been adopted is carried out.

Market Price Risk

Market price risk refers to the potential losses on balance-sheet and off-balance-sheet items resulting from fluctuations to market prices. This includes prices of securities and equities, foreign currencies and commodities, fluctuations in interest rates, credit spreads and volatilities and resulting changes to the price of derivatives. Market price risk includes the following risk types:

- Interest risk
  (including credit spread risk)
- FX risk
- Equities risk
- Commodities risk
- Other price risk

To measure market price risk under normal market conditions, we have been using a value-at-risk approach for many years. We describe value-at-risk as the potential loss which will, with a certain probability (confidence level), not be exceeded over a certain period (up to the risk horizon), assuming unaltered positions. The operational management of the Bank's market price risk is based on a risk horizon of one trading day and a 99% confidence level. Other risk horizons and confidence levels are also used to calculate the economic and regulatory capital requirements. However, these figures are based in principle on the same model and are partly read off directly and partly scaled in accordance with the risk horizon and confidence level. The figures in this section are basically taken from operational management (one-day holding period and 99% confidence level).

Our value-at-risk model is based on a historical simulation of risk factors over a period of 500 equally weighted trading days and covers interest rate, equity, foreign exchange, commodities and volatility risk (see also the Note "Fair value of financial Instruments" in the Notes to the consolidated financial statements for the valuation of the financial instruments). The complete revaluation of all positions is carried out to reflect changes in the market parameters (see also the Note

"Fair value of financial Instruments" in the Notes to the consolidated financial statements for the valuation of the financial instruments). With respect to interest rate risk, we consider both general interest rate risk resulting from a change in the level of market rates and spread risk between different issuers and issuer classes respectively.

The following are included as risk factors above all:

- Cash stock prices and stock indices
- Spot exchange rates
- Commodities prices
- Zero interest rates for typical maturities from swap curves
- Credit spreads for various categories, such as Pfandbriefe, federal state bonds and bank bonds with further differentiation by creditworthiness 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 continue to be covered outside the risk model via the regulatory standard approach and limited by issuer risk limits in the credit risk process, whereby the limitation of risks for positions in the regulatory trading book is carried out by means of a simplified limitation process depending on issuer type and rating.

For the purposes of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result (hypothetical P&L) for the previous day's trading position with the value-at-risk calculated for that position. If the evaluated result exceeds the value-at-risk as a loss in this analysis, it is referred to as a negative back-testing anomaly. In addition, the economic evaluation result taking new business into consideration (actual P&L) is also used in back-testing.

Three negative back-testing anomalies were incurred on trading book level in the Bank in 2020.

The internal value-at-risk model for recording market price risk is used in principle for all of the Group's units and for all trading and investment book holdings. These include the special assets liable to consolidation in the investment book. The Group's market price risks are listed by risk category on trading book and banking book level in the following table:

€m		2020		
		31.12.	Maximum	Average
Trading book	Interest rate risk	0.8	1.0	0.6
	Currency risk	0.1	0.5	0.1
	Equity/index risk	0.9	2.6	0.8
	Credit spread risk	1.9	2.2	1.7
	Commodities risk	0.1	1.6	0.1
	Diversification	1.0	2.0	0.9
	Overall risk	**2.8**	**4.1**	**2.5**
Banking book	Interest rate risk	6.4	8.6	7.0
	Currency risk	0.0	0.1	0.0
	Equity/index risk	0.1	1.1	0.5
	Credit spread risk	4.4	5.2	4.0
	Commodities risk	(–)	(–)	(–)
	Diversification	2.1	3.9	2.2
	Overall risk	**8.7**	**11.4**	**9.4**

€m		2019		
		31.12.	Maximum	Average
Trading book	Interest rate risk	0.4	0.7	0.5
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.8	1.3	0.6
	Credit spread risk	0.8	1.5	1.0
	Commodities risk	0.0	0.1	0.0
	Diversification	1.0	1.5	1.0
	Overall risk	**1.0**	**1.8**	**1.2**
Banking book	Interest rate risk	5.0	6.9	5.4
	Currency risk	0.1	0.1	0.1
	Equity/index risk	0.9	3.9	1.3
	Credit spread risk	1.7	2.3	1.9
	Commodities risk	(–)	(–)	(–)
	Diversification	2.3	4.3	3.0
	Overall risk	**5.3**	**6.7**	**5.7**

As was already the case in the previous year, risks relating to interest rates and credit spread risks constituted the Bank's greatest market price risks. In the 2020 financial year, there was an increase in the value-at-risk figures reported by the model as a result of the significant increase in volatility on the markets, which is not reflected in the other market risk figures, especially portfolio sensitivities. One key factor that led to the increase in the value-at-risk ratios in both the trading book and the banking book is the market movement in credit spreads observed in the first half of the year. In the banking book, the increase is also due to higher interest rate risks shown in the model. In the trading book, the equity/index risk is one of the main risk types along with the credit spread risk. Due to a comparatively flat risk profile, especially in the first half of the year, there has only been a moderate increase in the risk ratios from equity/index risks despite the extreme movements on the equity markets.

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

The "stressed value-at-risk" for the trading book, which is based on the market fluctuation of the stress period September 2008 to September 2009 as used during the financial year, is also reported. The model used to calculate the stressed value at risk is largely the same as that used to determine the normal value-at-risk. However, to avoid scaling assumptions, the calculation is based directly on a history of overlapping ten-day periods. In keeping with the regulatory provisions, the length of the history was fixed at one year instead of 500 trading days. Due to the increased volatility in the markets, a recalibration of the stress period was necessary. The stress period used since the end of the year covers the period from 4 October 2019 to 29 September 2020.

The stressed value-at-risk was €5.9 million as at the reporting date (previous year: €2.4 million).

In addition to the limitation of the value-at-risk, a number of sensitivity, volume and maturity limits are employed in order to avoid concentration risk and account for those risks which cannot be entirely incorporated into the model. As value-at-risk approaches are unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences, we supplement our full risk identification system with daily stress testing 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 regarding the risk content of the portfolio. Separate limits are defined for losses occurring under stress events, and the scenarios used are regularly reviewed and adjusted as necessary.

The Market Risk Management Committee assigns the market risk limits to the trading divisions allowing for the Bank's risk-bearing capacity and the stipulations of the HSBC Group and adjusts them, if necessary, over the course of the year. The observance of all market risk limits is monitored daily by the WCMR department based on the overnight positions. In the event of an excessive accumulation of trading losses in a trading department, its value-at-risk limit is automatically reduced.

Market liquidity risk is understood as the risk of not being able to liquidate/close transactions at all or without making a loss owing to insufficient market depth or market disruptions. Since this risk is managed by setting limits for volumes and terms among other things, it is only of minor significance for us. If necessary, this risk is considered accordingly within the scope of a cautious valuation. Economic financial hedging relationships are only mapped on the balance sheet through hedge accounting to the extent to which they meet the strict requirements of IFRS.

Liquidity Risk

(a) Definition
We understand liquidity risk as the danger of insolvency which arises if long-term assets are financed on a short-term basis or unexpected outflows of funds cannot be compensated. Liquidity risk can also exist in possible losses arising as the result of active measures against impending insolvency.

(b) Strategy
Our liquidity risk strategy envisages that the Bank can finance itself without recourse to the HSBC Group at any time and can also fulfil its payment obligations even in an emergency without the HSBC Group's support. The constant raising of funds from institutional investors on the capital market (wholesale funding) is of no major significance for our liquidity management.

We therefore have no medium-term note or commercial paper programme at present and do not issue certificates of deposit either at present. Customer deposits are our primary source of financing.

The Bank has further scope for refinancing within the scope of the ECB's targeted longer-term refinancing operations.

(c) Liquidity risk management
We reduce the risk of insolvency by maintaining high surplus liquidity and by the responsible structuring of assets and liabilities. We have stipulated our risk tolerance with respect to liquidity risk based on quantitative and qualitative criteria within our internal framework, predetermining strict standards for liquidity and financing ratios in order to remain solvent at all times, even given extreme events. In order to detect liquidity risk early on, threshold values are defined for various 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 the Treasury team, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk within the scope of limits agreed with the HSBC Group. ALCO's duties in this respect include monitoring liquidity and financing ratios, the regular adjustment of the liquidity risk strategy and transfer pricing for liquidity within the Bank. The Asset Liability and Capital Management (ALCM) team is responsible for drawing up all guidelines in connection with liquidity risk management within the meaning of the Minimum Requirements for Risk Management (MaRisk), as well as for adopting methods from the HSBC Group and their quality assurance. The regular updating of the liquidity emergency plan is the responsibility of ALCM, whereas the measures for sourcing liquidity are reviewed by Treasury.

As part of the three lines of defence concept, ALCM and Treasury represent the first line of defence for liquidity risk, while the second-line function is performed by Wholesale Credit and Market Risk (WCMR). The second line of defence monitors and approves the guidelines and standards for the management of liquidity risk and advises on effective risk management. This framework corresponds to the general regulatory requirements under MaRisk and the Capital Requirements Regulation (CRR, Regulation (EU) No 575/2013).

(d) Internal liquidity risk management and liquidity cushion
Our internal liquidity risk management is based consistently on two central regulatory management ratios: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Internal liquidity management is enhanced by information about the largest investors and the greatest investments in liquid securities, and through prices for refinancing sources (additional liquidity monitoring metrics (ALMM)). The regulatory management ratios are supplemented by internal analyses such as maturity concentration and stress tests. The expected development of the ratios is observed continuously in the Bank's rolling liquidity forecasts. The Bank's liquidity transfer pricing is also based on the regulatory logic of the LCR and the NSFR.

Similarly, the liquidity cushion is determined based on the regulatory requirements of the LCR. The inflows and outflows to be forecast therefore correspond to the net outflow of funds of the stress scenario implicitly modelled in the LCR, which shows both idiosyncratic and systemic stress elements. The net outflow of funds modelled in this stress scenario of the LCR is offset by the liquidity cushion. This consists of cash and central bank balances, as well as the High Quality Liquid Asset (HQLA) Position according to the LCR, and allows for the same (differing) markdowns on the non-pledged market value. The liquidity cushion therefore consists to a large extent of government and corporate bonds and Pfandbriefe, as well as highly liquid equities, all of which are eligible for central bank borrowing with a few exceptions. Correspondingly, the net balance of the inflows and outflows after the realisation of the liquidity cushion must clearly be positive.

The Bank regularly makes sure whether the operational requirements of the LCR are fulfilled to guarantee that the liquidity cushion can be guaranteed at any time. Financial instruments with a value of €357.3 million (previous year: €377.8 million) were available for use as collateral for peak funding facilities on the balance sheet date. As part of a test transaction to validate our emergency liquidity plan, we participated in an ECB main refinancing transaction to a minor extent in 2020.

Since January 2018, the minimum regulatory LCR has been 100%.

The LCR is a ratio used by banks for evaluating short-term liquidity risk and puts the portfolio of highly liquid financial assets in relation to the overall net outflow of funds in the next 30 days in a stress scenario defined by the regulatory authorities. The LCR determined for internal risk management came to 143.6% at the end of the year (previous year: 124.9%).

	Liquidity coverage ratio	
in %	**2020**	**2019**
31.12.	143.6	124.9
Minimum	122.7	115.0
Maximum	159.4	142.4
Average	147.0	130.4

We use a NSFR calculated on the basis of the BCBS-295 paper for internal controlling purposes.

(e) Financing structure and liquidity run-off profiles

To monitor the maturity matching of the financing structure, the Bank uses the Additional Liquidity Monitoring Metrics Report C.66 (Contractual Maturity Ladder), which corresponds to a liquidity run-off profile pursuant to MaRisk. This report breaks down a bank's balance sheet items by their contractual term and is aimed at showing possible maturity mismatches, as well as the resulting financing requirements. The report highlights the extent to which a bank is reliant on maturity transformation. The dependence on individual creditors is also measured based on concentration ratios. There is no material concentration with respect to either assets and financing sources or 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 which are settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders.
The individual transactions are usually subject to netting agreements.

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 limited, as the expected cash flows upon which the assumptions are based are used above all for effective management. The information relating to internal liquidity management, as well as the supervisory ratios, gives a far better insight into the liquidity position here.

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 including future interest payments are reported on an undiscounted basis. Such undiscounted cash flows can deviate from the book value as is shown in the balance sheet. Please see the Note "Remaining Maturities of Financial Instruments" with regard to the remaining maturities for financial assets.

€m	31.12.2020						
		Gross outflow (not discounted)					
	Book value	∑	< 1 mon.	1 – 3 mon.	3 – 12 mon.	12 mon. – 5y	> 5y
Financial liabilities within the balance sheet*							
Deposits by banks	4,303.6	4,334.4	1,204.2	27.3	92.7	2,689.9	320.3
Customer accounts	18,131.6	18,132.7	17,780.3	266.1	44.9	4.0	37.4
Trading liabilities	1,902.8	2,046.9	417.8	142.6	505.9	149.3	831.4
Other liabilities	117.7	117.7	117.7	0.0	0.0	0.0	0.0
Other liabilities – lease liabilities	101.1	102.4	1.4	2.7	12.2	52.2	33.9
Subordinated capital	530.9	606.7	95.9	1.3	57.3	71.3	380.9
Subtotal	24,986.6	25,238.4	19,615.9	437.3	700.8	2,914.5	1,570.0
Financial liabilities outside the balance sheet							
Financial guarantees	2,539.4	2,539.4	2,539.4	0.0	0.0	0.0	0.0
Loan commitments	11,303.6	11,303.6	11,303.6	0.0	0.0	0.0	0.0
Total	**38,829.6**	**39,081.4**	**33,458.9**	**437.3**	**700.8**	**2,914.5**	**1,570.0**

* In accordance with IFRS 7, no derivatives are included in the liquidity analysis by contractual residual term.

in €m	31.12.2019						
	Gross outflow (not discounted)						
	Book value	∑	< 1 mon.	1–3 mon.	3–12 mon.	12 mon.– 5y	> 5y
Financial liabilities within the balance sheet*							
Deposits by banks	2,608.1	2,632.8	519.5	193.1	389.3	1,121.4	409.4
Customer accounts	17,650.8	17,653.1	16,806.7	696.0	108.9	0.6	40.9
Trading liabilities	1,793.8	1,954.8	307.4	176.9	622.7	520.5	327.3
Other liabilities	85.7	85.7	85.7	0.0	0.0	0.0	0.0
Other liabilities – lease liabilities	49.7	52.5	1.3	2.7	11.9	29.3	7.3
Subordinated capital	551.3	641.4	7.3	1.4	127.5	101.0	404.2
Subtotal	22,739.4	23,020.3	17,727.9	1,070.1	1,260.3	1,772.8	1,189.1
Financial liabilities outside the balance sheet							
Financial guarantees	2,473.0	2,473.0	2,473.0	0.0	0.0	0.0	0.0
Loan commitments	10,099.8	10,099.8	10,099.8	0.0	0.0	0.0	0.0
Total	**35,312.2**	**35,593.1**	**30,300.7**	**1,070.1**	**1,260.3**	**1,772.8**	**1,189.1**

* In accordance with IFRS 7, no derivatives are included in the liquidity analysis by contractual residual 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 that the actual payments from on- and off-balance sheet obligations are regularly made later than the earliest possible point in time stipulated by contract.

Capital Risk

Capital risk includes the risk of not holding sufficient capital to meet regulatory requirements. In particular, it includes the risk of regulatory capital requirements at Group and individual level.

The preparation of regulatory capital planning is an essential process that promotes the timely identification of any capital requirements that may arise in the future and, if necessary, the initiation of appropriate measures at an early stage. Capital planning is prepared in both a normal scenario and an adverse scenario. The business divisions, in particular Trading and Market, are responsible for managing the RWAs. Compliance with regulatory requirements is presented in the financial management report.

Overall Picture of the Risk Situation

The geopolitical risks for global economic development in general, and for the financial industry in particular, shifted significantly in the course of 2020, not least due to the coronavirus pandemic.

In particular, the trade disputes between mainland China and the US, which have receded somewhat into the background in this context, are likely to come back into focus in 2021. Even after the election of Joe Biden, the fundamental antagonism between the world's two largest economies will remain. At the very least, there will be no rapid dismantling of the tariffs on Chinese imports introduced under the Trump administration. If the conflict were to intensify further, however, sanctions against companies and/or individuals would be more likely to be applied on both sides than tariff and non-tariff trade measures. In the financial sector, one conceivable last resort on the part of the US would be to exclude individual financial service providers operating on Chinese territory from US dollar clearing. For a bank such as HSBC – a major player in international capital movements with a strong presence in Hong Kong – this would impose substantial restrictions on its business model and therefore entail considerable financial risks.

Joe Biden's election victory also has implications for other geopolitical conflict hotspots. At this point in time, a precise estimate of these effects remains very speculative. One point that can be stated, for example, is that there is once again an increased likelihood of a revival of the Iran nuclear deal and a resulting de-escalation of the Iran conflict. In general, however, the COVID-19 pandemic and advancing climate change continue to constitute the main medium- and long-term global geopolitical risk factors. As a result, the new US president has placed combating them at the centre of his political agenda.

For HSBC Germany specifically, this gives rise to additional challenges with regard to our customers, especially in the segment of large internationally operating corporate customers. Our customers are increasingly international and have established supply chains across the globe that have been severely affected by the pandemic. Moreover, the development of the German economy is particularly dependent on foreign trade. For this reason, a renewed flare-up of protectionist currents would pose a substantial threat to the German economy. In this respect, however, there is also hope that the new US administration will pursue a clearly consensus-oriented trade policy, at least vis-à-vis Europe, which would be fundamentally positive for international trade flows and therefore for our key customer group. In this context, an essentially positive view can also be taken of the Brexit agreement concluded at the end of 2020. Until late on, there was a risk of an unregulated exit from the EU, which would have caused considerable distortions in the real economy and from a regulatory perspective. The agreement will at least prevent the worst trade barriers, such as tariffs, from being imposed. On the regulatory side, too, the UK's Prudential Regulation Authority (PRA) published clarifications in December. As such, the economic damage caused by the UK's exit from the EU is likely to remain limited on the whole, at least for Europe – and for Germany in particular.

With regard to the EU as a whole, too, geopolitical tensions have recently become noticeably less acute, with the EU heads of state and government agreeing not only on a common budget until 2027 but also on a COVID-19 recovery fund financed from joint borrowing by the EU Commission. In addition to agreeing on a common budget, the EU countries also adopted individual aid packages to support the economy and mitigate the impact of the pandemic on businesses and households. As dwindling tax revenues and massive increases in spending on economic support measures have caused budget deficits to explode in some instances, however, public debt ratios have also skyrocketed. Nonetheless, the Pandemic Emergency Purchase Programme implemented by the ECB, which was most recently further augmented at the beginning of December, has contributed significantly to calming the financial markets for the time being with regard to the sustainability of this debt.

With regard to HSBC Germany, the effects of the COVID-19 pandemic can be seen in our loan portfolio in almost all sectors. The initial risk posed by restricted supply chains now appears to be manageable. Now the greatest risks arise for borrowers directly affected by the various lockdown measures, such as the travel industry and the retail sector. We have supported our customers with additional loans (with and without government guarantees), taking into account the individual situation and forecasts. In this context, the moratorium on insolvency applications, which was extended once again at the end of December, is also a considerable source of potential uncertainty, since it could artificially delay possible company bankruptcies. Here, a noticeable increase in corporate bankruptcies is to be expected after the moratoria expire, which could have negative consequences both for individual credit institutions such as HSBC and for the economy as a whole.

Against this backdrop, the following statements can be made based on the assessments in February 2021. However, they may change over the further course of the financial year owing to changes in the Bank's environment or business activities.

We assess the risk situation below based in principle on the dimensions of the probability of the risk occurring and the impact on the Bank should the risk occur.

The probability that the liquidity risk will be incurred is assessed as very low. The bank has a large liquidity reserve which would mitigate the consequences of possible tensions in the euro money market. If, contrary to expectations, the Bank's liquidity situation were to deteriorate, we assume that a sufficient supply of liquidity would be ensured by the ECB. With regard to liquidity in foreign currencies, especially US dollars, the Bank also has sufficient instruments to ensure that liquidity requirements will be covered.

In the area of market price risks, we expect to be able to react to market distortions in a timely manner thanks to the established procedures for managing market price risks and experienced management on the trading and risk controlling side. As a result, major losses arising from market price risks are unlikely. This assumption has been especially borne out by the current approach in the context of the COVID-19 crisis, as well as experience gained in dealing with significant major events in recent years. The greatest market risks for the Bank are a significant increase in credit spread, a considerable rise in interest rates at short notice and sudden changes in the market prices of shares (gap risks). The Bank does not expect significant increases in the current market environment with regard to the credit spread and interest rate scenarios. On the stock market, we have recently observed a strong increase in trading activity that comes primarily from retail investors and could result in significantly increased volatility and liquidity for individual stocks. Nevertheless, we do not expect a structural increase in gap events.

2020 was marked by the impact of the COVID-19 crisis on economic activity, with the impact on businesses mitigated by government support programmes. Compared to previous years, we recorded significantly increased net loan impairments in 2020. In view of the ongoing COVID-19 crisis, we continue to expect a challenging overall economic environment and a tense sector-specific earnings and liquidity situation in some cases. We expect a moderately increased, medium probability of occurrence for counterparty risk and anticipate stable counterparty risk compared to the previous year. However, in view of the risk concentration in the portfolio, even significant individual defaults or a significant deterioration in existing major exposures could lead to noticeably higher net loan impairment provision requirements.

The implementation of rising regulatory requirements and the large number of projects to realise strategic planning are the reasons why the probability of occurrence in relation to operational risk is considered higher than in previous years. Greater attention is being paid to this risk within the scope of project management and day-to-day controlling in order to avoid incidents in as far as possible. Owing to the large number of projects with limited resources, there is an increased execution risk that projects will not be completed on time and within budget in the envisaged quality.

Despite our consistently customer-oriented strategy, together with our solid capitalisation, we see significantly increased strategic risk on account of the persistent low interest rate policy on the euro money market, as well as external regulatory or political influences which the Bank cannot govern. We see significant risk here for our profitability.

Capital planning shows that the regulatory capital ratios will be complied with in the next three years in both the base scenario and the stress scenario. We therefore assess the probability of occurrence of the capital risk as low.

The Bank's overall risk profile is to be considered average at present, but tending towards an increased level due to the low interest rate environment and the weakened economy. It is not possible to make a comprehensive assessment of all general parameters and the impact that they will have on business activity, the 2021 business result and the medium- to long-term trend in earnings. A permanent risk management process is therefore of major importance for the Bank. It requires a rapid response to changes in the general setting or an unplanned business development. Thanks to our functional management system, strong capitalisation and liquidity situation, and open culture of communication and corporate responsibility, the Bank is well prepared for the challenges in risk management.

Internal Control System and Risk Management System with Regard to the Accounting Process

General

The Internal Control System (ICS) is an integral part of our Risk Management System. The requirements pursuant to section 289 para. 4 and section 315 para. 4 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 and Group's assets and liabilities, along with the 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 ICS, 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 and Group's assets and liabilities, along with their financial position and earnings situation, were incorrect.

The ICS in the accounting process is documented comprehensively and is reviewed and updated on an annual basis. The Bank follows the principles of responsible company management and company monitoring as laid down in the German Corporate Governance Code.

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

Organisational Structure

The organisational structure of the Bank 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 Accounting and Controlling teams as part of the finance 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 parent company and subgroup financial statements for HSBC Bank plc, London). The accounting of the main German subsidiaries and regulatory reporting are also assigned to Accounting.

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

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

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. Prior to this, the Supervisory Board's Audit Committee discusses the key figures of the annual financial statements and the consolidated financial statements. Once the documents have been prepared, 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 in accordance with the Articles of Association. 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, the consolidated financial statements including the Group management report, and the interim report are published 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 and 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, compliance-relevant matters and other issues relevant for the ICS. Dr Eric Strutz, Berg, was Chairman of the Audit Committee as at 31 December 2020. Other members at that point in time were Paul Hagen, Düsseldorf, Daniela Weber-Rey, LL. M., Frankfurt am Main, and Dr Oliver Wendt, Cologne.

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 System and ICS 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. In response to the COVID-19 pandemic, the internal audit department reviewed the audit plan for 2020 in May 2020 for any need for adjustment in light of the changed risk situation. As a result, a real-time audit (RTA) was carried out on the application of the regulations for the public support programmes through which the economic impact of the pandemic and the countermeasures of the federal and state governments were to be partially absorbed. Another RTA was conducted with a focus on the temporary changes in processes and controls that became necessary due to the almost complete shift to working from home. In doing so, all relevant process adjustments were examined with regard to their design for compliance with the rules and the resulting increase in risk, and the results were presented to the decision-making body of the Major Incident Group (MIG). As a result, several audits were postponed to the following year.

The external auditors are elected at the Annual General Meeting for the current financial year after proving their independence to the chairman of the Audit Committee of the Supervisory Board. The external auditor is appointed by the Supervisory Board, observing the requirements of section 318 et seqq. German Commercial Code (HGB). In an Audit Committee meeting, the external auditors explain their audit plan and the respective focal points of the audit. 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.

IT Systems

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

Various input systems for settling the different business transactions transfer the corresponding accounting records for these business transactions (machine registers) to integrated accounting automatically. The settlement of the business transactions, and therefore the utilisation of the input systems, is carried out in the various specialised back office areas. Manual registers are required only in exceptional cases.

Both external standard software and accounting entry programmes developed by the Bank itself and individual data processing programmes (Microsoft Excel and Access) are used to complement integrated accounting. The programmes are used to determine accounting data which are then transferred to integrated accounting. They consist essentially of systems for entering and recording provisions, entering and paying incoming invoices, 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 with data stored in a DB2 system. Debt, expense, income and capital consolidation, as well as the elimination of inter-company gains, is carried out in TuBKons based on the import from integrated accounting, the various import systems with the required transaction details and 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 key principles when it comes to the structure of the ICS in the accounting process are as follows:

(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, HSBC Transaction Services GmbH is of particular importance for the accounting process. It is responsible among other things for the reconciliation of all loro and nostro accounts, reconciling the front office systems with the back office systems and reconciling all trade confirmations received with those of the various back office areas. The results of reconciliation are reported to the CFO.

(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 system access authorisations have been established for integrated accounting and 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 as 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 back office systems
All derivatives and securities transactions, as well as all money market transactions, are reconciled between the front and back office systems by a separate department of HSBC Transaction Services GmbH 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 CFO.

(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 CFO.

(f) Reconciliation with affiliated companies
All transactions within the HSBC Trinkaus & Burkhardt 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 the companies concerned on a monthly basis and are to be promptly clarified.

(g) Account statements and confirmations of open transactions
HSBC Transaction Services GmbH sends out bi-annual account statements for all customer accounts. For open transactions, particularly 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 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 customer division.

(i) Reconciliation between Product Control and Accounting

Product 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. In this way, significant differences are discovered and corrected in a timely manner.

(j) Analysis of special business transactions

The customer-servicing divisions report 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 operating income and expenses, income from other financial assets mandatorily measured at fair value through profit or loss 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 CFO 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 ICS 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 CFO. He or she forwards the key data of the monthly statement, together with his or her comments, to the 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 by product and business segment.

Information Relevant for Acquisitions

Shareholders and Shares

Capital

As at 31 December 2020 the Bank's issued share capital was €91.4 million divided into 34.1 million no-par value shares. Of the share capital, 63.0% is listed on the Düsseldorf and Stuttgart stock exchanges.

All shares have uniform rights and are bearer shares in principle. Each no-par-value share carries one vote. No shares have been issued with special rights conferring powers of control. The Management Board knows of no limitations affecting voting rights or the transfer of shares. Where employees hold shares of HSBC Trinkaus & Burkhardt AG, they exercise their control rights like other shareholders in accordance with the statutory provisions and the Articles of Association.

HSBC Holdings plc, London, indirectly held 99.3% of the share capital on the balance sheet date and 100% at the time of listing (previous year: 80.7%, with Landesbank Baden-Württemberg, Stuttgart, still holding a direct share of 18.7%).

Share Price and Market Value

During 2020, our share price increased by 52.13% to €71.50. The lowest fixing price of the year was €40.80 and the highest €71.50. From the initial issue price of DM190 (€97.20) per DM50 nominal share on 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
31.12.2010	28,107,693	89.00	2,501.58
31.12.2011	28,107,693	90.20	2,535.31
31.12.2012	28,107,693	87.19	2,450.71
31.12.2013	28,107,693	84.80	2,383.53
31.12.2014	34,088,053	70.00	2,386.16
31.12.2015	34,088,053	72.90	2,485.89
31.12.2016	34,088,053	63.72	2,172.09
31.12.2017	34,088,053	73.21	2,495.59
31.12.2018	34,088,053	57.50	1,960.06
31.12.2019	34,088,053	47.00	1,602.14
31.12.2020	34,088,053	71.50	2,437.30

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

Dividends

For the 2020 financial year, we propose paying a dividend of €4.00 per share (previous year: €0.00 per share). With a dividend total of €136.4 million (previous year: €0.00 million), we wish to ensure that our shareholders participate suitably in the profits we generated in 2020.

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 consisted of five people on 31 December 2020.

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 the Note "Shareholders' Equity" in respect of the Management Board's current authorisation by the Annual General Meeting to issue shares.

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.

Compensation Report

Basic Features of the Compensation Systems

As a credit institution, the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO) apply above all for the HSBC Trinkaus & Burkhardt Group, alongside the provisions of the German Stock Corporation Act and the recommendations of the German Corporate Governance Code. In accordance with section 25n of the German Banking Act (KWG), the Bank is to be classified as a major institution. As the Bank provides securities and related services, the institution must also observe the compensation law requirements of BT 8 of BaFin Circular 05/2018 (WA) regarding the Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organisation and Transparency (MaComp).

Observing the legal and regulatory requirements, compensation strategy and systems are stipulated firstly by the Management Board and secondly by the Supervisory Board; the control units are duly included in their preparation. The Remuneration Control Committee set up by the Supervisory Board for questions relating to compensation consists of five members of the Supervisory Board. At present, these are the Chairman of the Supervisory Board, two employees' representatives and two representatives of the majority shareholder.

Five Supervisory Board meetings and four committee meetings were held in 2020, which were attended by the individual members of the Management Board and the remuneration officer appointed in accordance with section 23 of the Remuneration Ordinance for Institutions (InstitutsVergVO). The guidelines of the remuneration policy – and here in particular the adequate structuring of the remuneration systems and their parameters, including the calculation of the total amount of variable compensation and the analysis of the Material Risk Takers – were discussed regularly with the company's Management Board members at the meetings.

The total amount of the variable compensation paid to Management Board members and employees of the Group is geared towards the available bonus pool, which is determined in a standardised, transparent and formalised process. An equal balance between the risk-bearing capacity of the German banking group in accordance with section 7 of the Remuneration Ordinance for Institutions (InstitutsVergVO) on the one hand and the competitiveness of the individual compensation on the other is decisive. In view of the risks involved, account is taken of the performance of the Bank, the performance of the respective division and individual performance, whereby sustained performance, the risks associated with the performance and impeccable conduct are rewarded in particular. The details are stipulated in the Guideline for Determining the Overall Amount of Variable Compensation adopted by the Management Board and Supervisory Board and in the compensation systems.

In order to support the sustainability of the performance, parts of the variable compensation for some employee groups are granted over a retention period of several years in accordance with the regulatory provisions. The variable compensation may not be claimed during this period. Rather, it is subject to standardised and formalised malus regulations applicable throughout the Group. Accordingly, these variable compensation components can be withheld in full or in part if the earnings contribution originally acknowledged turns out to be not sustainable or the recipient's conduct is considered to be questionable in hindsight. Furthermore, the conduct adjustments process regulates the treatment of infringements against statutory provisions, HSBC Group guidelines, compliance provisions and general behavioural principles in working life that are to be observed by Management Board members and employees. Non-observance can lead to the reduction or loss of variable compensation, among other things.

The Bank is also entitled to not pay the cash component or transfer the shares of HSBC Holdings plc in full or in part if no adequate capital or liquidity or capitalisation can be guaranteed to ensure risk-bearing capacity at the time of the payment or if the responsible supervisory authority requires this.

Price risks and opportunities arising from the shares granted lie exclusively with the respective members of the Management Board or employees in the retention period and – as applicable – up to the end of the holding period. They are not permitted to undertake any hedging activities or other countermeasures aimed at undermining or nullifying the risk alignment of their compensation intended by the granting of the variable compensation.

The individual variable compensation component bears an appropriate ratio to the fixed salary element, whereby the upper limit of twice the fixed salary component resolved by the Annual General Meeting on 3 June 2014, observing the provisions of section 6 para. 1 of the Remuneration Ordinance for Institutions (InstitutsVergVO) and section 25a para. 5 German Banking Act (KWG), continue to apply and may not be exceeded.

As a major institution, the Bank has identified those persons whose activities have a substantial influence on the Bank's overall risk profile (Material Risk Takers or Risk Takers) pursuant to section 25 para. 5b German Banking Act (KWG) and based on the adopted "Guideline for the Identification of Material Risk Takers". Special compensation provisions apply for these persons in accordance with section 18 para. 1 in conjunction with section 20 Remuneration Ordinance for Institutions (InstitutsVergVO) which have been implemented in a separate "Guideline for Material Risk Takers" and have an impact on the manner in which the variable compensation is paid out. The rules applicable for the Material Risk Takers, which affect both the Management Board and the employees identified accordingly, are therefore presented in a separate section, "Special Rules for Material Risk Takers".

Individual, special regulatory requirements also apply to employees in control units. These are also presented in a separate section.

Compensation of the Executive and Supervisory Bodies

General principles of the compensation of the members of the Management Board

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

The compensation comprises a fixed salary element plus a variable compensation component. A bonus related to the function of Management Board member is part of the fixed salary component for some Management Board members. Each member of the Management Board has also been given an individual pension commitment.

The extent of the fixed salary element and the annual variable compensation component for members of the Management Board is determined by the Supervisory Board in a formalised and transparent process which is prepared by the Remuneration Control Committee.

To guarantee the risk orientation of the compensation, the variable compensation component is paid partly in cash and partly in the form of a (provisional) allocation of shares of HSBC Holdings plc. The share of the variable compensation component takes the provisions of the German Banking Act (KWG), the Remuneration Ordinance for Institutions (InstitutsVergVO) and, where necessary, the capital investment legislation into consideration and is geared towards the HSBC Group's provisions applicable throughout the Group.

Pursuant to section 25a para. 5b of the German Banking Act (KWG) in conjunction with article 3 Delegated Regulation (EU) No 604/2014, Management Board members are to be classified as Material Risk Takers. Furthermore, all members of the Management Board of the HSBC Trinkaus & Burkhardt Group are classified as Group Material Risk Takers due to the regulatory provisions applicable for the HSBC Group, with two of them classified as Risk Manager Material Risk Takers and one of them classified as an FCA designated Senior Manager Material Risk Taker.

Please see the section "Special Rules for Material Risk Takers" for the respective requirements for the determination and payment of variable compensation.

Information on the extent and composition of the payments made to the members of the Management Board and Supervisory Board

In accordance with the resolution passed at the Annual General Meeting on 14 June 2017, the information pursuant to section 314 para. 1 no. 6 a sentences 5 to 8 of the German Commercial Code (HGB) relating to the personalised remuneration details of the members of the Management Board is not to be disclosed.

At €5,212.1 thousand, the sum of the compensation components defined as fixed compensation pursuant to section 2 para. 6 of the Remuneration Ordinance for Institutions (InstitutsVergVO) for all members of the Management Board in 2020 was slightly lower than the previous year (€5,675.0 thousand), taking into account the changes to the composition of the Management Board. The variable remuneration component amounted to €2,623.71 thousand (previous year: €3,438.1 thousand). Remuneration of the Supervisory Board members for the 2020 financial year amounted to €1,368.9 thousand (previous year: €1,816.1 thousand) in the form of shares and €1,254.8 thousand (previous year: €1,622.0 thousand) in cash. The variable share of the Management Board remuneration for the 2020 financial year includes a long-term remuneration component of €1,619.8 thousand (previous year: €2,140.5 thousand), of which €752.9 thousand (previous year: €973.2 thousand) is attributable to variable remuneration paid in cash and €867.0 thousand (previous year: €1,167.3 thousand) is attributable to variable remuneration in HSBC Holdings plc shares.

Severance payments for Material Risk Takers in the amount of €2.2 million (previous year: €1.1 million) was granted in 2020.

Provisions totalling €9.4 million (previous year: €15.8 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependants according to IFRS. In the financial year, €0.8 million (previous year: €0.9 million) was recognised in the income statement.

The compensation for members of the Supervisory Board is governed in the Articles of Association, on the basis of which each member of the Supervisory Board receives a fixed salary of €50,000. The chairperson receives two and a half times this amount and the deputy chairperson two times this amount. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned remuneration of a member of the Supervisory Board, provided the respective committee has met at least once in the financial year. Where a member of the Supervisory Board has more than one office, such member is only remunerated for the office with the highest remuneration. Where membership in the Supervisory Board or a committee does not last the duration of an entire financial year, the remuneration is reduced on a pro rata basis.

For the 2020 financial year, the remuneration of the Supervisory Board amounted to €1,096,002.94 (previous year: €1,164,950.02). No separate pension obligations exist for Supervisory Board members. The general rules for employees, former Managing Partners and former members of the Management Board apply for the pension obligations to the employee representatives, former Managing Partners and the former members of the Management Board of the Bank.

Payments to former Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG (as the legal predecessors of HSBC Trinkaus & Burkhardt AG) and their surviving dependants, as well as to former members of the Management Board of Trinkaus & Burkhardt AG, totalled €4.5 million (previous year: €4.3 million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €51.0 million (previous year: €43.7 million).

No Management Board member acquired shares of 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. As in the previous year, no rental guarantees or loans were granted to members of the Management Board or the Supervisory Board in the reporting period. Contingent liabilities to third parties in favour of members of the executive bodies existed only in connection with the form presented in the Note "Letter of Comfort".

Employee Compensation

In accordance with sections 5 and 6 para. 1 of the Remuneration Ordinance for Institutions (InstitutsVergVO) and section 25a para. 5 of the German Banking Act (KWG), the Bank pursues a compensation strategy that is geared towards the long term and is in keeping with the Bank's objectives, values and strategy, as well as the corporate and risk culture. Performance-related remuneration which is in line with the market conditions remains of major importance for staff motivation, regardless of whether they are covered by collective agreements. The long-term-oriented compensation components that were implemented at the same time take the regulatory requirements into consideration and guarantee that in the case of risks determined ex post and lack of sustainability of the performance, the compensation may be withheld or reclaimed. The employee compensation system is designed in such a way that it avoids incentives for members of staff to take disproportionately high risks. The high share of the fixed salary element in relation to overall compensation, which is adequate by comparison with the market, also contributes to this in particular. In order to guarantee that the compensation of our employees remains in line with the market conditions, function-related bonus payments are granted in individual cases which increase the fixed compensation component. These bonus payments do not lead to increases in expenses for occupational pension benefits for the Bank.

The employee compensation system is stipulated by the Management Board in collaboration with the control units. The appropriateness of this system is reviewed by the Remuneration Committee and the Supervisory Board. The corresponding rules apply uniformly for all business divisions and subsidiaries. With regard to Internationale Kapitalanlagegesellschaft mbH, it is to be taken into consideration that it is additionally subject to the special provisions of the capital investment legislation. Special requirements that apply to individual employee groups under the Remuneration Ordinance for Institutions (InstitutsVergVO) are specifically explained in separate chapters.

Employee compensation is regulated by the collective wage agreements for the private banking industry and the public sector banks for employees covered by collective agreements.

In addition to a fixed salary, which is reviewed annually, employees not covered by collective agreements receive performance and conduct-related variable compensation. The amount of the annual variable compensation is determined in accordance with the principles and criteria defined in the "Guideline for Determining the Overall Amount of Variable Compensation" in a formalised and comprehensive process. According to the provisions of the rules of procedure for the Supervisory Board, the fixed and variable compensation for the Bank's top managers reporting directly to the Management Board, who are among the 15 highest-paid employees of the HSBC Trinkaus & Burkhardt Group, is determined with the approval of the Remuneration Control Committee.

The variable compensation is determined by the Management Board based on proposals made by the managers taking into consideration the quantitative and qualitative performance of the employees, their conduct and allowing for the relevant economic aspects. The aim here is to set incentives while avoiding disproportionately high risks from being taken. When evaluating performance, individual earnings contributions, as well as the performance of the Bank and the individual divisions, are taken into account. Employee performance is assessed on the basis of fixed criteria allowing for the risks taken and the observance of compliance guidelines and the other codes of conduct, with particular emphasis on adherence to the values of the HSBC Group.

Subject to the Special Rules for Material Risk Takers, the variable compensation for the 2020 financial year will be paid – observing the provisions of the Remuneration Ordinance for Institutions (InstitutsVergVO) and the BT 8 "Minimum Requirements for the Compliance Function" (MaComp), and in keeping with the principles of the HSBC Group regarding the payment of variable compensation – entirely in cash in March 2021 up to a euro equivalent of USD75 thousand. If this amount is exceeded, part of the variable compensation will be paid in cash. Depending on the amount, another part of between 10% and 50% will be paid in shares of HSBC Holdings plc. The proportionate cash component will be paid in March 2021, and a third of the shares of HSBC Holdings plc allocated (provisionally) will be transferred in each of the following three years.

In addition, individual employees who show particularly positive conduct and therefore put the HSBC Trinkaus & Burkhardt Group's values into practice in an outstanding way and promote them, and/or represent an outstanding example and role model for other employees, are to be rewarded by one-off voluntary special payments (recognition). The recognitions are determined by the Management Board on the basis of justified proposals and granted in addition to the performance-related variable compensation.

In 2020, 29 recognitions (previous year: 36) were made totalling €35,000 (previous year: €36,000). In addition, variable remuneration was reduced by a total of €19,858 (previous year: €42,675) in 18 cases (previous year: 9) within the scope of conduct adjustments. Furthermore, in 9 cases of employees covered by collective agreements or employees with overtime pay (previous year: 7), the May portion of the voluntary special payment was reduced in connection with conduct adjustments totalling €3,268 (previous year: €1,500).

Special Rules for Material Risk Takers

The variable compensation for the Material Risk Takers (both Management Board members and employees) is determined in accordance with the principles and criteria defined in the "Guideline for Determining the Overall Amount of Variable Compensation" and in the "Performance Management Guidelines" in consideration of the business performance of the group, company and the division, as well as taking into account an overall assessment with respect to the individual performance – based on quantitative and qualitative criteria – and the rule-consistent conduct of the Management Board members and employees. To make a connection between the performance and conduct of the Material Risk Takers (as well as of relevant persons pursuant to BT 8 MaComp and other employee groups) and the variable compensation, a formal performance management was conducted with regard to section 14 German Remuneration Ordinance for Institutions (InstitutsVergVO) (as well as BT 8 MaComp). Based on the individual targets agreed at the start of the year, the results are evaluated at year-end and performance and behaviour ratings assigned. These ratings have a direct impact on the determination of the variable compensation for these groups of persons.

By way of deviation from the general provisions relating to variable compensation set out above, half of the entire variable compensation of the Material Risk Takers – provided it amounts to at least €50 thousand – consists of a cash payment and half of an allocation of shares of HSBC Holdings plc in accordance with the requirements of the German Remuneration Ordinance for Institutions (InstitutsVergVO), whereby shares allocated provisionally are not entitled to dividends. Interest is not granted either on the deferred cash units.

Of the variable compensation, 60% will be transferred in the 2021 financial year. The remaining 40% of the variable compensation, granted only provisionally to begin with, will be transferred in the next three financial years (one-third in each case). Material Risk Takers whose variable compensation exceeds €500,000 and Group Material Risk Takers whose variable compensation exceeds GBP500,000 will receive only 40% of the variable compensation in the 2021 financial year. The remaining share will be transferred in each of the next three financial years (one-third in each case).

Material Risk Takers who are members of the Management Board or the Bank's top management level reporting directly to the Management Board will also receive only 40% of the variable compensation in the 2021 financial year. However, the remaining share will be transferred in each of the next five financial years (20% in each case) so as to reflect the regulatory provisions and sustainability.

For Group Material Risk Takers classified as "Risk Manager Material Risk Takers" at the same time, the deferred variable compensation will be transferred over a period of at least five years (also 20% in each case).

The holding period was extended pursuant to section 19 InstitutsVergV in the case of two members of the Management Board, as it was not possible to take a three-year measurement period into consideration due to the date of appointment to the Management Board.

For Material Risk Takers, a holding period of twelve months from the date of transfer is stipulated for the shares of HSBC Holdings plc allocated as variable compensation.

Over and above the general malus regulations, compensation components already paid out may be reclaimed up to a period of two years after allocation of the last retained compensation components within the scope of existing clawback provisions for Material Risk Takers. For Group Material Risk Takers, this clawback period is a standard seven years, unless, as described above, the assessment period is less than three years for members of the Management Board. In these cases, a longer clawback period is also possible.

Special rules for employees in control units

Control units within the meaning of the Remuneration Ordinance for Institutions (InstitutsVergV) at the HSBC Trinkaus & Burkhardt Group are the Wholesale Credit and Market Risk – Credit Risk Management and Loan Management Unit, Global Risk Analytics, Operational Risk and Information Security Risk, Business Management & Risk Strategy/COO Risk, Early Risk Identification Manager, Asset Liability & Capital Management (ALCM), Regulatory Compliance, Financial Crime Risk, Internal Audit, Human Resources and Product Control.

In accordance with section 9 para. 2 of the Remuneration Ordinance for Institutions (InstitutsVergVO), the compensation for employees of these units is focused on the fixed compensation component. This means that compensation decisions ensure that the variable compensation is no more than one-third of the total compensation and this threshold may only be exceeded in specially authorised, absolute exceptions. The share of the variable compensation never exceeded 50 % of the total compensation in the 2020 financial year.

Quantitative Information on Compensation

The table below gives a summary of the most important quantitative information relating to the compensation for the Management Board and the Material Risk Takers based on section 16 Ordinance for Institutions (InstitutsVergVO) and on article 450 para. 1 of Regulation (EU) No 575/2013:

31.12.2020	Number of beneficiaries of fixed compensation*	Total fixed compensation (in €m)	Number of beneficiaries of variable compensation	Total variable compensation for the financial year (in €m)	Of which total variable compensation paid in cash (in €m)	Of which total variable compensation paid in instruments*** (in €m)
Management Board	6	5.2	6	2.6	1.3	1.4
Material Risk Takers**	316****	51.9	300	21.1	12.2	8.9

31.12.2019	Number of beneficiaries of fixed compensation*	Total fixed compensation (in €m)	Number of beneficiaries of variable compensation	Total variable compensation for the financial year (in €m)	Of which total variable compensation paid in cash (in €m)	Of which total variable compensation paid in instruments*** (in €m)
Management Board	6	5.7	5	3.4	1.6	1.8
Material Risk Takers**	324*****	54.1	300	24.1	13.7	10.3

* Fixed remuneration pursuant to section 2 (6) Ordinance for Institutions (InstitutsVergVO)
** Excluding members of the Supervisory Board
*** Shares in HSBC Holdings plc
**** 16 of whom are also identified as Material Risk Takers pursuant to section 37 KAGB
***** 19 of whom are also identified as Material Risk Takers pursuant to section 37 KAGB

31.12.2020	Total outstanding deferred compensation (in €m)	Of which already earned (in €m)	Of which not yet earned (in €m)	Deferrals granted in the financial year (in €m)	Deferrals paid out/ awarded during the year (in €m)	Total amount of deferral reductions (in €m)
Management Board	6.6	0.0	6.6	1.5	2.2	0.0
Material Risk Takers	22.1	0.0	22.1	9.4	11.2	0.0

31.12.2019	Total outstanding deferred compensation (in €m)	Of which already earned (in €m)	Of which not yet earned (in €m)	Deferrals granted in the financial year (in €m)	Deferrals paid out/ awarded during the year (in €m)	Total amount of deferral reductions (in €m)
Management Board	8.8	0.0	8.8	2.1	2.5	0.0
Material Risk Takers	33.4	0.0	33.4	10.0	12.0	0.0

In 2020, 4 (previous year: 20) guaranteed variable amounts (recruitment bonuses) were paid totalling €0.5 million (previous year: €1.2 million). The equivalent of shares allocated provisionally with no dividend entitlement was calculated with the price of the shares of HSBC Holdings plc.

31.12.2020	Severance payments made in the financial year (in €m)	Number of beneficiaries of the severance payments made	Severance payments granted in the financial year (in €m)	Number of beneficiaries of the severance payments granted
Management Board/Material Risk Takers*	2.2	4	2.2	4

* For reasons of confidentiality, payments at the end of the employment contract have not been reported for the Group as a whole owing to the small number of employees involved.

31.12.2019	Severance payments made in the financial year (in €m)	Number of beneficiaries of the severance payments made	Severance payments granted in the financial year (in €m)	Number of beneficiaries of the severance payments granted
Management Board/Material Risk Takers*	1.1	3	1.1	3

* For reasons of confidentiality, payments at the end of the employment contract have not been reported for the Group as a whole owing to the small number of employees involved.

The highest single compensation paid in 2020 was €750.0 thousand (previous year: €538.4 thousand).

Four persons (previous year: four persons) were provisionally granted compensation between €1.0 million and €1.5 million, one person (previous year: two persons) between €1.5 million and €2.0 million, one person (previous year: one person) between €2.0 million and €2.5 million and no persons (previous year: no persons) between €2.5 million and €3.0 million in respect of the 2020 financial year during the period under report.

The overall amount of fixed compensation paid at the HSBC Trinkaus & Burkhardt Group in 2020, including the fixed compensation paid for the Management Board, came to €259.3 million (previous year: €263.1 million); 1,794 persons (previous year: 1,852 persons) were promised variable compensation. The total amount of variable remuneration was €41.7 million (previous year: €49.2 million). This figure includes the variable compensation for the Management Board. The overall amount is split between the individual divisions as follows:

31.12.2020	Total fixed compensation (in €m)	Total variable compensation for the financial year (in €m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking*	155.5	30.2	1,057
Private Banking and Asset Management	29.4	5.6	184
Functions and HOST	74.4	5.8	553

* As part of a boundary change, a team of specialists from Global Banking & Markets and Commercial Banking was assigned to Private Banking and Asset Management in 2020.

31.12.2019	Total fixed compensation (in €m)	Total variable compensation for the financial year (in €m)	Number of employees with variable compensation components
Global Banking & Markets and Commercial Banking	159.5	37.5	1,092
Private Banking and Asset Management	28.8	5.6	188
Functions and HOST	74.9	6.1	572

The equivalent of shares allocated provisionally for Material Risk Takers with no dividend entitlement was calculated with the price of the shares of HSBC Holdings plc.

Corporate Governance Statement*

As a result of the transfer of the shares in HSBC Trinkaus & Burkhardt AG from the minority shareholders to the majority shareholder, HSBC Holdings plc, in return for appropriate cash compensation in accordance with section 327a para. 1 sentence 1 of the German Stock Corporation Act (AktG) (squeeze-out procedure), the Management Board and the Supervisory Board of the Bank are no longer obliged to submit the declaration on the recommendations of the "Government Commission on the German Corporate Governance Code" required under section 161 AktG or to prepare a report on corporate governance. The admission of the shares to trading on the regulated market of the stock exchanges in Düsseldorf and Stuttgart was revoked on 27 January 2021. Notwithstanding this, the disclosure requirements according to section 289f para. 4 German Commercial Code (HGB) are fulfilled in the following.

As at 31 December 2020, the Supervisory Board had six female members. The proportion of female members was therefore above the quota of 30% required by law for listed companies.

The Supervisory Board has determined a minimum target of 20% female Management Board members. The Bank complied with this target; as at 31 December 2020, one of the five members of the Management Board was female.

The Management Board has set minimum female quotas of 10 % for the first management level and of 20 % for the second management level below the Management Board. At the time of determining these targets in 2015, 8 % of executives at the first management level and 18% at the second management level were female. These quotas had changed to 10.9% and 20.2%, respectively, by the end of 2020.

* unaudited

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in €m	**(Note)**	**31.12.2020**	**31.12.2019**	**Change**	
				in €m	**in %**
Cash reserve	(20)	10,454.4	5,731.5	4,722.9	82.4
Loans and advances to banks	(6), (21), (38)	1,567.5	1,987.0	−419.5	−21.1
Loans and advances to customers	(6), (22), (38)	8,516.8	10,866.5	−2,349.7	−21.6
of which pledged as collateral		1,601.0	1,871.4	−270.4	−14.4
Trading assets	(6), (23)	2,639.0	2,801.9	−162.9	−5.8
of which pledged as collateral		110.1	120.9	−10.8	−8.9
Positive market values of derivative financial instruments	(6), (24)	1,713.3	1,164.2	549.1	47.2
Other financial assets that must be measured at fair value through profit or loss	(6), (25)	84.4	120.9	−36.5	−30.2
Financial assets	(6), (26), (38)	4,050.6	3,509.4	541.2	15.4
of which pledged as collateral		1,792.2	241.7	1,550.5	> 100.0
Property plant and equipment	(10), (12), (27)	134.5	137.3	−2.8	−2.0
Intangible assets	(11), (27)	77.8	86.3	−8.5	−9.8
Taxation recoverable	(15), (28)	89.5	119.1	−29.6	−24.9
of which current		6.8	61.9	−55.1	−89.0
of which deferred		82.7	57.2	25.5	44.6
Other assets	(29)	66.5	68.7	−2.2	−3.2
Non-current assets held for sale	(30)	72.7	n/a	n/a	n/a
Total assets		**29,467.0**	**26,592.8**	**2,874.2**	**10.8**

Liabilities in €m	(Note)	31.12.2020	31.12.2019	Change	
				in €m	in %
Deposits by banks	(6), (33)	4,303.6	2,608.1	1,695.5	65.0
Customer accounts	(6), (34)	18,131.6	17,650.8	480.8	2.7
Trading liabilities	(6), (35)	1,902.8	1,793.8	109.0	6.1
Negative market values of derivative financial instruments	(6), (36)	1,414.5	1,070.0	344.5	32.2
Provisions	(8), (14), (37), (38)	166.3	128.9	37.4	29.0
Taxation	(15),(39)	67.3	34.9	32.4	92.8
of which current		67.3	34.8	32.5	93.4
of which deferred		0.0	0.1	–0.1	–100.0
Other liabilities	(40)	355.5	266.4	89.1	33.4
Subordinated capital	(41)	530.9	551.3	–20.4	–3.7
Shareholders' equity	(3), (42)	2,594.5	2,488.6	105.9	4.3
Share capital		91.4	91.4	0.0	0.0
Capital reserve		720.9	720.9	0.0	0.0
Additional Tier 1 capital		435.0	435.0	0.0	0.0
Retained earnings		1,393.2	1,282.9	110.3	8.6
Valuation reserve for debt instruments recognised at fair value through other comprehensive income		64.1	47.8	16.3	34.1
Valuation reserve for equity instruments recognised at fair value through other comprehensive income		4.6	6.6	–2.0	–30.3
Valuation reserve for the remeasurement of the net pension obligation		–114.8	–96.3	–18.5	–19.2
Valuation reserve from currency conversion		0.0	0.2	–0.2	–100.0
Total before non-controlling interests		2,594.4	2,488.5	105.9	4.3
Non-controlling interests		0.1	0.1	0.0	0.0
Total liabilities		**29,467.0**	**26,592.8**	**2,874.2**	**10.8**

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

in €m	(Note)	2020	2019	Change	
				in €m	in %
Interest income from financial instruments recognised at amortised cost and at fair value through other comprehensive income		313.6	331.4	–17.8	–5.4
Interest income from other financial instruments mandatorily recognised at fair value through profit or loss		3.1	4.7	–1.6	–34.0
Interest income		316.7	336.1	–19.4	–5.8
Interest expense		90.2	108.0	–17.8	–16.5
Net interest income	(43)	226.5	228.1	–1.6	–0.7
Net loan impairment provisions in the lending and securities business	(44)	83.7	45.1	38.6	85.6
Fee income		749.2	660.2	89.0	13.5
Fee and commission expenses		255.2	207.1	48.1	23.2
Net fee income	(45)	494.0	453.1	40.9	9.0
Net trading income	(46)	159.8	70.4	89.4	> 100.0
Gains and losses from the disposal of financial assets measured at amortised cost	(48)	0.0	–0.9	0.9	100.0
Net profit from other financial assets mandatorily measured at fair value through profit or loss	(47)	9.9	11.9	–2.0	–16.8
Income from financial assets	(50)	18.8	10.3	8.5	82.5
Administrative Expenses	(49)	646.4	618.9	27.5	4.4
Net other income	(51)	8.1	35.9	–27.8	–77.4
Pre-tax profit		187.0	144.8	42.2	29.1
Income tax	(52)	57.5	47.3	10.2	21.6
Net profit		**129.5**	**97.5**	**32.0**	**32.8**
Consolidated profit/loss attributable to minority shareholders		0.0	0.0	0.0	–
Consolidated profit/loss attributable to HSBC Trinkaus & Burkhardt shareholders		129.5	97.5	32.0	32.8

Earnings per share in €	(Note)	2020	2019
Undiluted	(54)	3.34	2.41
Diluted	(54)	3.34	2.41
Average number of shares in circulation in million	(54)	34.1	34.1

Reconciliation from net income to comprehensive income

in €m	(Note)	2020	2019
Net profit		129.5	97.5
Gains/losses after tax reclassified in the income statement		16.1	22.5
of which from debt instruments recognised at fair value through other comprehensive income	(42)	16.3	22.6
of which from currency conversion		−0.2	−0.1
Gains/losses after tax not reclassified in the income statement		−20.5	4.4
of which from equity instruments recognised at fair value through other comprehensive income	(42)	−2.0	0.0
of which from the remeasurement of the net pension obligation	(37)	−18.5	4.4
Other income for the period		−4.4	26.9
Comprehensive income		**125.1**	**124.4**
Attributable to:			
the minority shareholders		0.0	0.0
HSBC Trinkaus & Burkhardt shareholders		125.1	124.4

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

					Valuation reserve						
in €m	**Share capital**	**Capital reserve**	**Additional Tier 1 capital**	**Retained earnings***	**for debt instruments recognised at fair value through other comprehensive income**	**for equity instruments recognised at fair value through other comprehensive income**	**for the remeasurement of the net pension obligation**	**from currency conversion**	**Total before non-controlling interests**	**Non-controlling interests**	**Total incl. non-controlling interests**
As at 1.1.2019	**91.4**	**720.9**	**235.0**	**1,283.9**	**25.2**	**6.6**	**−100.7**	**0.3**	**2,262.6**	**0.1**	**2,262.7**
Available profit distribution**				−98.5					−98.5		−98.5
Addition from net profit for the year				97.5					97.5		97.5
Capital increase			200.0						200.0		200.0
Other income for the period					22.6	0.0	4.4	−0.1	26.9		26.9
Other changes									0.0		0.0
As at 31.12.2019	**91.4**	**720.9**	**435.0**	**1,282.9**	**47.8**	**6.6**	**−96.3**	**0.2**	**2,488.5**	**0.1**	**2,488.6**

* incl. consolidated profit available for distribution
** incl. distribution on additional Tier 1 capital of € 13.3 million

					Valuation reserve						
in €m	**Share capital**	**Capital reserve**	**Additional Tier 1 capital**	**Retained earnings***	**for debt instruments recognised at fair value through other comprehensive income**	**for equity instruments recognised at fair value through other comprehensive income**	**for the remeasurement of the net pension obligation**	**from currency conversion**	**Total before non-controlling interests**	**Non-controlling interests**	**Total incl. non-controlling interests**
As at 1.1.2020	**91.4**	**720.9**	**435.0**	**1,282.9**	**47.8**	**6.6**	**−96.3**	**0.2**	**2,488.5**	**0.1**	**2,488.6**
Available profit distribution**				−22.5					−22.5		−22.5
Addition from net profit for the year				129.5					129.5		129.5
Capital increase											
Other income for the period					16.3	−2.0	−18.5	−0.2	−4.4		−4.4
Other changes***				3.3					3.3		3.3
As at 31.12.2020	**91.4**	**720.9**	**435.0**	**1,393.2**	**64.1**	**4.6**	**−114.8**	**0.0**	**2,594.4**	**0.1**	**2,594.5**

* incl. consolidated profit available for distribution
** incl. distribution on additional Tier 1 capital of € 22.5 million
*** Due to the derecognition of shares in a strategic investment, € 3.3 million were reclassified from the valuation reserves for equity instruments measured at fair value recognised through other comprehensive income to retained earnings in the reporting period.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	(Note)	2020	2019
Net profit		129.5	97.5
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		188.1	133.8
Net profit from the sale of investments and property, plant and equipment		–19.1	–11.2
Other adjustments (net)		–167.1	–208.0
Sub-total		131.4	12.1
Changes to assets and liabilities from operating activities after adjustment for non-cash components			
Loans and advances to banks	(21)	419.4	–526.3
Loans and advances to customers	(22)	2,294.6	–116.8
Trading positions and derivatives	(23,24,34,35)	67.4	235.4
Other assets		–470.1	148.4
Liabilities	(32,33)	2,176.2	2,078.7
Other liabilities		–18.0	–9.2
Total adjustments		4,469.5	1,810.2
Interest receipts		311.7	336.7
Dividend receipts		2.6	3.3
Interest payments		–72.6	–87.1
Income taxes paid		8.0	–91.9
Cash flow from operating activities		**4,850.6**	**1,983.3**
Proceeds from the sale of			
equity-linked financial investment instruments		8.1	0.3
Property plant and equipment	(27)	2.3	1.5
Payments for the acquisition of			
equity-linked financial investment instruments		–10.1	0.0
Property plant and equipment	(27)	–46.5	–46.2
Cash flow from investing activities		**–46.2**	**–44.4**
Dividends/interest paid to HSBC Trinkaus shareholders		–22.5	–98.5
Adjustments to subordinated capital (incl. interest)		–33.7	–43.6
Adjustments to Additional Tier 1 capital	(41)	0.0	200.0
Net cash provided by the capital increase		0.0	0.0
Principal from lease payments		–25.3	–15.8
Cash flow from financing activities		**–81.5**	**42.1**
Cash and cash equivalents at end of prior period	**(20)**	**5,731.5**	**3,750.5**
Cash flow from operating activities		4,850.6	1,983.3
Cash flow from investing activities		–46.2	–44.4
Cash flow from financing activities		–81.5	42.1
Cash and cash equivalents at end of period	**(20)**	**10,454.4**	**5,731.5**

Notes to the Consolidated Financial Statements

161 Other Notes

Fundamental Accounting Policies

HSBC Trinkaus & Burkhardt AG (the Bank) is a public limited company under German law with registered offices in Düsseldorf. Together with the companies over which HSBC Trinkaus exercises dominant influence, HSBC Trinkaus engages in banking business and provides all manner of financial services.

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2020 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 315e (1) of the German Commercial Code (HGB) have also been taken into consideration. The Group Management Report that must also be prepared also includes the report on the opportunities and risks associated with future development (Risk Report). The information contained in the Management Report complements the details given about the nature and extent of risks arising from financial instruments in the Notes.

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

The presentation currency is euro. For greater clarity, we basically report all amounts in € million. The figures have been rounded commercially, which may result in minor deviations in the calculation of totals and percentages in these consolidated financial statements.

The preparation of IFRS financial statements requires management to provide assessments, assumptions and estimates. This is necessary with regard to the determination of the fair values of financial instruments, the classification in fair value levels 1 to 3, the impairment of financial instruments and other assets, the recognition of provisions (including provisions for current taxes) and other obligations, the net loan impairment provision in the lending and securities business, the calculation of deferred taxes, the assessment of the control of structured entities within the meaning of IFRS 10 and the estimation of the expected duration of lease agreements. These assumptions, estimates and assessments influence the reported amounts of assets and liabilities, as well as the income and expenses of the reporting period. The actual results may deviate from the management's assessment. Estimates are subject to forecast uncertainties. In order to keep these to a minimum, available objective information, as well as experience, is drawn upon as much as possible. The estimation procedures used are reviewed regularly and adjusted if necessary.

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

The consolidated financial statements include the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, consolidated cash flow statement and the Notes. Segment reporting takes place in the Notes.

As at 31 December 2020, HSBC Holdings plc had an indirect interest of 99.3% (previous year: 80.7%) in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. The share increase of 18.7 percentage points took place in May 2020. Parallel to the announcement of the increase in its shareholding, HSBC had announced that it also intended to take over the remaining shares still in free float as part of a squeeze-out procedure under stock corporation law pursuant to section 327a (1) sentence 1 AktG. HSBC Trinkaus & Burkhardt AG is then to be delisted from the stock exchange. Since the legal threshold for a squeeze-out in Germany is 95% and HSBC owns more than 99% as a result of the share increase, the requirements under stock corporation law for the implementation of a squeeze-out procedure were met. The resolution to transfer the shares of the minority shareholders to the majority shareholder in return for an appropriate cash compensation was passed at an Extraordinary General Meeting of HSBC Trinkaus & Burkhardt AG held in November 2020. The transfer of the shares of the minority shareholders became effective with the entry of the transfer resolution in the commercial register on 26 January 2021. HSBC Trinkaus & Burkhardt AG has thus become a 100% indirect subsidiary of HSBC Holdings plc. The admission of the shares to trading on the regulated market of the stock exchanges in Düsseldorf and Stuttgart was revoked on 27 January 2021.

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the published consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Accounting, Valuation and Consolidation Methods

1 Scope of Consolidation

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

The Group exerts control over a company if it has decision-making powers to manage the relevant activities, has a right to the significant variable returns from the affiliate enterprises and may use its decision-making powers to influence the amount of the significant variable returns.

To determine whether a company is to be consolidated, the company's purpose and structure must be reviewed initially, after which the company's relevant activities and those that are defined as such are assessed.

The scope of consolidation has changed compared to 31 December 2019 in that the newly founded HSBC Service Company Germany GmbH is included in the consolidated financial statements. Furthermore, the two special funds included in the consolidated financial statements were merged with effect from 1 November 2020.

A detailed list of the companies included in the consolidated financial statements can be found in the Note "Participating Interests". We also fully consolidated one special fund (previous year: two) and one closed-end real estate fund.

2 Consolidation Principles

Consistent accounting policies were applied for similar business transactions and other events in similar circumstances 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 on which control was assumed.

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 21 (IAS: International Accounting Standards), we distinguish all assets and liabilities denominated in foreign currency in monetary and non-monetary items. Monetary items denominated in foreign currency are calculated on the balance sheet date using the reporting date. Revaluations resulting from the currency translation of monetary items are recognised at fair value through profit or loss. Non-monetary items, which are valued at historical acquisition or production cost, are converted at the rate on the date of the transaction. Non-monetary items measured at their fair value are converted at the exchange rate on the date on which the fair value is calculated. In the case of non-monetary items, the treatment of currency conversion results depends on how the other revaluation results of the corresponding item are treated.

Forward exchange transactions are measured at fair value. The measurement parameter is the relevant for-ward 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 respective reporting date (closing rate), while income and expenditure are translated at the relevant average rate. The equity capital available at initial consolidation must be converted at the reporting 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 profit was generated. Translation gains or losses arising from capital consolidation are presented separately in shareholders' equity.

The translation differences recognised through other comprehensive income are reported in equity under the item valuation reserve from currency translation. They refer to a closed-end real estate fund.

4 Business Combinations

IFRS 3 determines the application of the acquisition method for business combinations where the buyer takes control of the company acquired. After the buyer's procurement costs are calculated, the assets and liabilities acquired must be measured 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 that did not qualify previously for recognition in the 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 (impairment test) at least once a year or as required on an ad hoc basis in accordance with IAS 36 (cf. Notes "Intangible Assets" and "Investment Overview").

5 Non-Current Assets and Disposal Groups Held for Sale and Discontinued Operations

In accordance with IFRS 5, non-current assets and disposal groups held for sale or determined for distribution to shareholders, including the liabilities directly associated with these (groups of) assets, are subject to special reporting and valuation principles. IFRS 5 is also applicable in relation to discontinued operations. A discontinued operation is defined as a component of an entity that represents a separate major line of business or geographical area of operations, that has been disposed of or classified as held for sale, or is available for distribution to the shareholders.

As at the balance sheet date, we report one property including related fixtures and fittings as a non-current asset held for sale, since the criteria for accounting in accordance with IFRS 5 are met. No circumstances existed as at 31 December 2019 that needed to comply with IFRS 5 accounting policies.

6 Financial Instruments

Classification and measurement of financial instruments

Recognition
In accordance with IFRS 9, financial instruments are initially recognised in the balance sheet when the Group becomes a contractual party to the corresponding agreement. Recognition for spot transactions (regular way contracts) is uniform on the trading day, otherwise on the settlement date.

Financial instruments are derecognised fully, provided the contractual rights of the Group to receive the cash flows from the financial instrument are met, cancelled or have expired, or the Group has transferred all material risks and opportunities related to the financial instrument. If not all opportunities and risks are transferred, recognition is at the amount of the residual risk item if we continue to exercise control over the financial instrument (continuing involvement). No transfers were made during the reporting period that would have led to recognition in the amount of the residual risk items. Transferred financial instruments that do not qualify for derecognition comprise 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 and securities lending transactions remain largely with the transferor.

Reporting

Reporting of financial instruments, as well as the corresponding classes, are included in the following overview.

Measurement approach	**Categories pursuant to IFRS 7/Balance sheet items**	**Measurement categories pursuant to IFRS 9**
Measurement at amortised cost	Cash reserve	Measurement at amortised cost (AC)
	Loans and advances to banks	Measurement at amortised cost (AC)
	Loans and advances to customers	Measurement at amortised cost (AC)
	Deposits by banks	Measurement at amortised cost (AC)
	Customer accounts	Measurement at amortised cost (AC)
	Subordinated capital	Measurement at amortised cost (AC)
	Contingent liabilities on guarantees and indemnity agreements	
	Irrevocable loan commitments	
Measurement at fair value	Trading assets/liabilities	Measurement at fair value through profit or loss (HfT)
	Positive/negative market values from derivative financial instruments	Measurement at fair value through profit or loss (HfT)
	Other financial assets mandatorily recognised at fair value through profit or loss	Measurement at fair value through profit or loss (mFVPL)
	Financial assets	Measurement at fair value through other comprehensive income with or without recycling (FVOCImR or FVOCIoR)

We deal with the information on risks arising from financial instruments 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 upon initial recognition.

In addition, we allocate all financial instruments at initial recognition to the categories as defined in IFRS 9, which are decisive for the subsequent measurement. The allocation of financial assets to the measurement categories under IFRS 9 is based on the one hand on the business model underlying the management of these assets (business model criteria) and on the structure of the contractual cash flows of the respective financial assets (cash flow criteria) on the other. The allocation of financial liabilities depends on whether the liabilities were included in conjunction with the trading activities or designated at fair value through profit or loss or not at the time of recognition.

We have implemented the rules of IFRS 9 as follows at the HSBC Trinkaus & Burkhardt Group:

Measurement at amortised cost

Both of the following conditions must be met for financial assets to be allocated to the class for financial instruments measured at amortised cost:

1. The financial asset is held within a business model whose objective is to hold financial assets to collect their contractual cash flows ("hold" business model).

2. The contractual terms of the financial asset provide for cash flows at set times which represent exclusively principal and interest on the outstanding capital.

The aforementioned criteria of the loans and receivables in the classic lending business are met at the HSBC Trinkaus & Burkhardt Group. These financial instruments are reported under loans and advances to banks and loans and advances to customers. We recognise interest from the lending business in net interest income. Discounts and premiums are collected using the effective interest method. Impairments on loans and receivables are recognised as net loan impairment provision, and reduce the book value shown in the balance sheet accordingly. In the event of an isolated unscheduled sale of financial instruments (for example, as a result of a transfer) despite the general intention to hold these financial assets, we report the resulting results in the item "Gains and losses from the disposal of assets measured at amortised cost".

In addition, we allocate all financial liabilities that are not entered into in conjunction with the trading activities to this measurement category. We report these financial liabilities in "deposits by banks", "customer accounts" and "subordinated capital". Interest from these liabilities are included in net interest income. Discounts and premiums are recorded using the effective interest method. Non-interest bearing liabilities, such as zero coupon instruments, are measured at their interest rate as at the balance sheet date.

Please refer to Note 8 "Net Loan Impairment Provision in the Lending and Securities Business" for information on the regulations on impairment of the financial assets measured at amortised cost.

Fair value measurement through other comprehensive income

For financial assets to be allocated to the class of financial assets recognised at fair value through other comprehensive income, the following conditions have to be met cumulatively:

1. The business model of the division in which the financial asset is held provides for the holding as well as the sale of the financial assets ("hold and sell" business model).

2. The contractual terms of the financial asset provide for cash flows at set times which represent exclusively principal and interest on the outstanding capital.

Within the HSBC Trinkaus & Burkhardt Group, this concerns the bonds and other fixed-income securities held from a financial asset and liquidity security perspective, as well as promissory note loans. We report these debt instruments in the item financial assets. We report interest from these financial assets in net interest income. The subsequent measurement of these financial instruments is at fair value. The same valuation methods are used for the fair value measurement of these financial instruments as for financial instruments measured at fair value through profit or loss (see following section). Changes in the value vis-à-vis the amortised costs are recognised at fair value through other comprehensive income in shareholders' equity in the valuation reserve for debt instruments recognised at fair value through other comprehensive income. The impairment provisions of IFRS 9 that are also applicable to these holdings do not have any consequences for balance sheet reporting at fair value, as the net loan impairment provision for these financial instruments is recognised as an expense as an adjustment to the valuation reserves reported within shareholders' equity. Upon disposal of these financial assets, the valuation reserves reported within shareholders' equity until then are reclassified in the income statement (recycling) and reported in income from financial assets.

Furthermore, because of a special regulation of IFRS 9, we allocate selected equity instruments to the measurement category of financial assets recognised at fair value through other comprehensive income. In doing so, we apply an option whereby individual equity instruments not held for trading can be allocated voluntarily and irrevocably to this measurement category at the time of recognition or initial application of IFRS 9. HSBC Trinkaus & Burkhardt Group makes use of this special regulation, as these selected equity instruments are not held primarily for value enhancement reasons. We report the profit distribution received from these equity instruments held as strategic investments in net interest income. Subsequent measurement is at fair value, whereby the changes in value are recognised at fair value through other comprehensive income in shareholders' equity in the valuation reserve for debt instruments recognised at fair value through other comprehensive income. When these financial assets are sold, we report the valuation reserves recognised in shareholders' equity up until that point in retained earnings as part of shareholders' equity and do not recycle these valuation reserves to the income statement. Due to the derecognition of the shares in a strategic investment, €3.3 million were reclassified from the valuation reserves for equity instruments measured at fair value through other comprehensive income to retained earnings in the reporting period.

Financial liabilities cannot be allocated to the measurement category financial assets recognised at fair value through other comprehensive income.

Please refer to "Net Loan Impairment Provision in the Lending and Securities Business" (Note 8) for information on the regulations on impairment of the financial assets recognised at fair value through other comprehensive income.

Measurement at fair value through profit or loss

All other financial instruments shall be recognised at fair value through profit or loss. This concerns the financial assets that are allocated to a business model other than the "hold" and "hold and sell" models or whose contractual cash flows do not exclusively represent principal and interest on the outstanding capital at set times. We report as trading assets or trading liabilities all non-derivative financial instruments that were purchased or entered into with the intention of selling them or repurchasing them in the short term, or are part of a portfolio of clearly and jointly managed financial instruments at initial application in which short-term profit taking has been demonstrated in the recent past. In addition, we allocate to this measurement category all derivatives, including embedded derivatives that are required to be separated, and all non-derivative financial assets that are not attributable to trading activities but do not meet the cash flow requirement. We show these holdings in the balance sheet as positive or negative market values from derivative financial instruments or as financial assets mandatorily recognised at fair value through profit or loss.

Subsequent measurement of financial instruments in this category is at fair value. Publicly traded market prices – where 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. These are mainly present value methods and option price models. We have cooperated closely with the HSBC Group to develop in-house valuation routines for specific complex products. Owing to the broad product spectrum, the measurement parameters are as differentiated as possible, such as according to lifetime and strike prices. The choice of data sources used plus the allocation of the 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 at fair value through profit or loss until maturity or when the position is closed out. There is no distribution over the transaction term.

All realised gains and losses, the unrealised measurement results and the trade-related net interest income are reported under net trading income, provided the earnings effects result from financial instruments held for trading or from derivatives. Earnings effects from non-derivative financial instruments that are recognised at fair value through profit or loss, but not assigned to the trading activities, are reported as regards the current rate of return in net interest income and as regards the other earnings components in net profit from other financial assets mandatorily recognised at fair value through profit or loss.

We continue not to avail of the option of irrevocably designating financial instruments at the time of recognition in the category of financial instruments recognised at fair value through profit or loss (fair value option).

Reclassification

Reclassifications of financial liabilities are not permitted. A financial asset is to be reclassified if the business model under which the financial asset is held changes. No financial assets were reclassified during the period under report.

Financial guarantees and loan commitments

Financial guarantees are agreements whereby the guarantor is obliged to make certain payments that compensate the guarantee taker for any loss incurred because a certain borrower is unable to meet its payment obligations in due time. At the time the guarantee is concluded, a financial guarantee must be recognised at fair value. This comprises the present value of the expected benefits and the counter present value of the future premiums and is regularly zero if the present value of obligation and the present value of the premium correspond to one another.

Loan commitments are obligations of a lender to provide a loan to a potential borrower at predetermined contractual conditions.

The Group does not know in detail to what extent the financial guarantees and loan commitments will be called upon. Financial guarantees and loan commitments are subject to the impairment provisions of IFRS 9 as described below in "Net Loan Impairment Provision in the Lending and Securities Business" (Note 8).

7 Hedge Accounting

In order to hedge the market risk of fixed-income bonds, loans and issued registered bonds, the Bank applies the provisions for the reporting of hedge accounting. We exercise the option under IFRS 9 and continue to use the provisions pursuant to IAS 39 for hedge accounting. The fair value of the fixed-income financial instruments depends on changes in the market interest rate on the one hand, and on liquidity and risk premiums for the issuer on the other. The Bank hedges against market-interest-rate-induced volatility by concluding interest rate swaps with other banks, which largely compensate for the fluctuations in the fair value of the underlying transactions. With this hedging of fair value fluctuations (so-called fair value hedges), the interest rate-induced volatility of the underlying transactions is recognised at fair value through profit or loss in accordance with IAS 39. The spread-related fair value fluctuations of the bonds are not hedged. These are transferred to the valuation reserve for financial instruments in line with the subsequent recognition of securities in the non-trading portfolio through other comprehensive income.

The reporting of hedge accounting in the balance sheet in accordance with IFRS is linked to a series of requirements. These are related in particular 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: the identification of the underlying transaction and the hedging instrument, flagging the hedged risk and the procedure for reviewing the effectiveness of the hedge transaction.

The Bank uses a linear regression model to assess the effectiveness of the hedging relationship. 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 linear regression line (slope).

The proof of effectiveness requires higher expected effectiveness for a hedging relationship in the future (prospective effectiveness) on the one hand. On the other hand, proof of the high effectiveness of the hedging relationship during the reporting period must be submitted regularly (retrospective effectiveness). 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 are adequate for the retrospective effectiveness test.

8 Net Loan Impairment Provision in the Lending and Securities Business

Financial assets (debt instruments) recognised at amortised cost or at fair value through other comprehensive income, as well as financial guarantees and loan commitments, are impacted by the regulations on impairments under IFRS 9. This also includes trade receivables, lease receivables and contract receivables pursuant to IFRS 15. Pursuant to the provisions of IFRS 9, the net loan impairment provision requirements are calculated and recognised on the basis of expected credit losses (expected credit loss model).

The reporting of impairments under IFRS 9 is based on a three-stage model. Accordingly, net loan impairment provision up to the amount of the 12-month expected credit losses (Level 1) is recognised for financial instruments whose credit risk has not increased significantly from the time of recognition to the balance sheet date and whose creditworthiness is not already impaired at acquisition or provision. In the case of financial assets whose credit risk has increased significantly since initial recognition (stage 2) and financial assets that have been defaulted by the balance sheet date, a net loan impairment provision in the amount of the lifetime expected credit losses (stage 3) is recognised. Purchased or originated credit impaired (POCI) financial assets are recognised at initial application, after deduction of the lifetime expected credit losses.

Our definition of default, including for balance-sheet purposes, is based on the regulatory definition of default as per the Capital Requirements Regulation. Accordingly, an event of default, and hence an impairment within the meaning of the accounting standards occurs, where it is unlikely that the borrower can meet its obligations in full without having to resort to measures such as the realisation of collateral, or if one of the borrower's substantial receivables is more than 90 days past due.

Indications of the unrecoverability and hence the impairment of financial assets include, in particular,

- substantial financial difficulties on the part of the debtor,
- a breach of contract, such as default or arrears in respect of interest and redemption payments,
- increased probability that the borrower will enter bankruptcy or other restructuring procedure,
- the disappearance of an active market for these financial asset because of financial difficulties or
- concessions that the lender makes to the borrower for economic or legal reasons in conjunction with the borrower's financial difficulties that the lender would otherwise not consider.

In order to assess if a financial asset is at an increased risk of default risk compared with at recognition, we use the criteria of the relative change in the expected probabilities of default since initial application of the respective financial instrument, in addition to financial assets more than 30 days overdue and inclusion in the list of exposures subject to closer monitoring (watch-worry list).

We do not exercise the option to apply simplified procedures for the calculation and recognition of the net loan impairment provision for financial instruments (low credit risk exemption) and for trade receivables, lease receivables and contract receivables pursuant to IFRS 15.

Write downs/provisions in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower entity. To this effect, all borrowers are assigned a so-called customer risk rating (CRR) on the basis of a uniform, Group-wide 23-stage internal rating scale. The customer risk rating can be summarised in ten steps (CRR 1 – 10), whereas receivables that are in default or impaired are classified in CRR 9 and 10. Net loan impairment provision is generally calculated on a book value basis as the product from the book values or credit equivalent amount, the probability that the exposure default within one year (Level 1) or within the residual term (Levels 2 and 3) and the individual loss ratio taking into account appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment. The borrower's country of domicile is also relevant. Net loan impairment provision thus created covers the credit loss expected within one year or within the residual term.

Net loan impairment provision is offset against receivables on the assets side on the one hand and shown as provisions for risks from the off-balance sheet lending business on the liabilities side on the other. Interest and impairments of Levels 1 and 2 financial assets are recognised independent of one another. On the other hand, interest income from impaired financial assets (Level 3) are recognised only using the original effective interest rate on the gross book value of the respective financial asset, reduced by the net loan impairment provision. Purchased or originated credit impaired (POCI) financial assets are recognised at initial application, after deduction of the lifetime expected credit losses.

We also calculate and recognise net loan impairment provision for financial assets recognised at fair value through other comprehensive income, depending on the allocation to the levels under IFRS 9. Risk classification is also made on the basis of a uniform, Group-wide 23-stage internal rating scale. Unlike the financial assets recognised at amortised cost, net loan impairment provision does not reduce the book value of the financial instrument. The respective financial asset continues to be recognised at fair value. Net loan loss impairment is recognised instead as an expense as an adjustment to the valuation reserves reported for this financial instrument within shareholders' equity.

With regard to the management of counterparty default risks, as well as the methodical, process and systems-based implementation of the impairment requirements under IFRS 9, we refer to the information on counterparty default risk in the Risk Report of the Group Management Report. Compared to the previous year, the presentation in the notes to the consolidated financial statements and in the Group management report was supplemented by explanations on the effects of the COVID-19 pandemic on the measurement of net loan impairment provisions.

If all efforts to assert our claims have failed and there is no real prospect of outstanding amounts being repaid, we derecognise financial assets that are in default in full or in part against the existing net loan impairment provision and, in severe cases, also as a direct impairment against the income statement. This shall be assumed if, after exhausting all the appropriate measures for repayment of the outstanding loans, no further efforts to this end will be taken and further realisable collateral is no longer available.

9 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 repayment obligations from the liquidity inflows are generally reported under the balance sheet items "deposits by banks" or "customer accounts".

Similarly, the repayment obligations arising from the outflow of liquidity from reverse repos is reported under the balance sheet item items "loans and advances to banks" or "loans and advances to customers". 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. Rights and obligations arising from liquidity inflows and outflows from collateral pledged for securities lending transactions are reported under the balance sheet items "deposits by banks" and "customer accounts".

10 Property, Plant and Equipment

The balance sheet item "property, plant and equipment" comprises property and buildings, hardware and other operational and business equipment, as well as right-of-use assets (leases).

Property, plant and equipment are valued at amortised cost, less regular depreciation. Factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions, are applied when calculating the useful life of an asset. Regular depreciation is on a straight-line basis over the respective expected useful life.

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

Right-of-use assets are measured pursuant to the cost model. Accordingly, right-of-use assets are subject over time to regular depreciation over the term of the lease agreement and may also be subject to unscheduled impairments.

Depreciation that exceeds wear and tear-related erosion is taken into consideration under non-scheduled write-downs. An impairment loss is recognised in the amount in which the book value exceeds the recoverable amount. The recoverable amount is the higher of the two amounts of the fair value of the asset, less the cost to sell and value in use. At each balance sheet date, property, plant and equipment for which impairment was recognised in the past is examined to determine whether the impairment losses possibly have to be reversed.

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. The regular depreciation recorded in administrative expenses is distributed over the expected useful life of the asset of three to ten years on a straight-line basis. In addition to regular depreciation, impairment tests are also carried out to value fixed assets. This assessment comprises the review whether there is evidence that suggests an impairment of the intangible asset. Internal and external sources of information are drawn on for this purpose. If there is evidence on an impairment, such as a technical obsolescence of the intangible asset or changed utilisation planning that suggests a reduced value compared with the book value or use of the software, a recoverable amount is determined from the intangible asset. A write-down is recognised in the amount by which the recoverable amount falls short of the book value of the intangible asset. If the reasons for an impairment no longer exist, a write-up shall be made for software.

Intangible assets also include the goodwill resulting from company acquisitions, which is attributable to a subsidiary as a cash generating unit that is assigned to the Global Banking & Markets segment. 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 or on an ad hoc basis as required. The impairment test is based on the recognised net income value method. The future expected surpluses from the most recent management planning are used and discounted by an interest rate that adequately reflects the risks involved, in order to calculate the recoverable amount, which is comparable to the book value of the goodwill. A recoverable amount that is less than the book value is depreciated.

The earnings forecasts are determined on the basis of the management's financial plans that are drawn up for a five-year period. Earnings forecasts that extend beyond the five-year period are oriented on the level of earnings for the last years of the planning period.

The realisable amount generally reacts sensitively to the estimation of future earnings as well as the discount rate applied.

The assumptions on which the cash flow forecasts are based are subject to uncertainties. The estimation of future earnings not only takes into account the current business situation, but also an estimation of the future development of business operations, the relevant markets and the overall economic environment. The management's past experience is incorporated into the planning, and the opportunities and risks from the forecasts are weighed up. Despite a conservative management approach in assessing the earnings forecasts, the following circumstances could impact negatively on the earnings forecasts and therefore lead to an impairment of goodwill in the future:

- worse than expected performance of the securities markets
- worse than expected development of the macroeconomic environment
- changes to the regulatory environment and its implementation
- negative development of the competitive situation

The applied discount rate of 5.6% (previous year: 5.1%) includes a risk-free interest rate, a market risk premium and a factor for the systematic market risk (beta factor). All three components are based on external or HSBC Group data.

12 Leasing

IFRS 16 is applicable for leases — contractual agreements by way of which a lessor grants a lessee the right to use an identified asset for a defined period of time and the lessor receives consideration in return from the lessee. A right of use to a leased asset exists if the lessee is entitled to make decisions regarding the use of the leased asset and is generally the recipient of the full economic benefit from the leased asset during the term of the lease agreement.

Pursuant to IFRS 16, lessees must recognise a right-of-use asset and a lease liability in the balance sheet upon the conclusion of a lease.

The amount of the lease liability upon initial recognition corresponds primarily to the present value of the lease payments not yet made at that point in time. The amount is to be discounted using the underlying interest rate for the lease agreement. If the underlying interest rate for the lease agreement cannot be determined, the lessee's incremental borrowing rate for the property and term should be used for discounting. Along with the non-cancellable period, periods resulting from the exercise of options (such as extension options) that have been deemed to be reasonably certain must be taken into consideration in the term of a lease agreement.

The right-of-use asset is to be measured at cost upon initial recognition. The cost comprises the amount of the initial measurement of the lease liability and the initial direct costs incurred by the lessee. Any lease incentives, any lease payments made before or at the start of the term of the lease agreement, and the estimated cost of restoration and similar obligations must also be taken into account.

Within the HSBC Trinkaus & Burkhardt Group, we have exercised the option to recognise the lease payments associated with short-term lease agreements with a term of less than twelve months (short-term leases) that do not contain a purchase option for the leased asset as an expense on a pro rata basis over the term of the lease agreement. At the same time, we do not recognise right-of-use assets and lease liabilities for lease agreements where the underlying assets have a low value (low-value assets). We consider low-value assets to be those whose value when new usually does not exceed €5,000. The lease payments associated with this group of leased assets are also recognised as an expense on a pro rata basis over the term of the lease agreement. Furthermore, we have exercised within the HSBC Trinkaus & Burkhardt Group the option to recognise non-lease components (such as service components) tied into lease components in a lease agreement as a single lease component rather than recognising them separately.

Right-of-use assets are measured pursuant to the cost model at a later stage. Accordingly, the rights of use are consequently subject to corresponding write-downs over the term of the lease agreement, as well as any unscheduled impairments and remeasurements of the corresponding lease liabilities. Lease liabilities are subject to continuous compounding. Their book value, however, is decreased primarily by the lease payments made over time. Reassessments and changes in lease agreements, such as modifications and index adjustments, may also lead to the remeasurement of lease obligations. In particular, write-downs and any impairments on right-of-use assets, as well as compounding on the lease liability, are recognised as an expense in the income statement.

Because the right-of-use assets recognised in the consolidated financial statements of HSBC Trinkaus & Burkhardt relate solely to rented properties and motor vehicles, said right-of-use assets are reported as property, plant and equipment. Lease liabilities are reported under the item "Other liabilities". Write-downs and any impairments on right-of-use assets are reflected in administrative expenses, whereas interest expense from compounding on lease liabilities are presented in net interest income.

Lessors must classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease.

Lessors in a finance lease relationship must write off the leased asset upon lease commencement and recognise a lease receivable at an amount equal to the net investment in the lease to be reduced by the lessee's lease payments over the term of the lease. The lessor also recognises interest income in line with the underlying interest on the lease agreement.

Lessors in operating lease relationships continue to recognise the leased asset in the balance sheet and write it off accordingly over time. The lessee's lease payments are recognised as income on a pro rata basis.

Special provisions must be observed for sale and leaseback transactions and for subleasing agreements. Under the provisions for the recognition of subleasing relationships, all rights of use associated with leased assets must be written off if they have been transferred to third parties within the scope of a finance lease. In this case, receivables from subleasing agreements that are subject to the impairment requirements under IFRS 9 are to be reported in the place of right-of-use assets.

13 Treasury Bonds and Shares

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

As at the end of 2020, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. As in the previous year, the results of this trading in treasury shares had no material effect. The portfolio of treasury shares reached a maximum of 0.00 % (previous year: 0.00 %) of the subscribed capital.

14 Provisions

Provisions for pensions and similar obligations, for credit risks and uncertain liabilities are reported under provisions. Provisions for uncertain liabilities are created in amounts equal to the present value of the expected expenditure.

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. Net interest income from plan assets is offset against expected pension expenses in the income statement. Actual income excluding interest income from the plan assets, as well as actuarial gains and losses from the performance of the pensions, are reported under shareholders' equity and in the statement of comprehensive income through other comprehensive income after the deduction of deferred taxes.

Provisions for legal risks are created for legal disputes where, following a thorough review of the circumstances of the individual case, type and extent of a possible claim and settlement, we conclude there is a probability of more than 50 % that the Bank will be called upon. We refer to the Note "Provisions".

In case of material legal disputes and process risks where it is unlikely the Bank will be called upon, but is not classified as unlikely, we carry out the instructions in the Note "Contingent Liabilities and Other Obligations".

15 Taxation Recoverable and Taxation

The accounting and measurement of income tax are in accordance with IAS 12. Current taxation recoverable and taxation are calculated in accordance with the tax rates applicable for each individual company and offset against the expected payment or compensation amount. Current taxation recoverable is offset against current taxation, provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred taxation recoverable and taxation are formed on temporary differences by comparing the balance sheet valuations of the assets and liabilities with the valuations that are relevant for the taxation of the Group company in question. The deferred taxation continues to be calculated on the basis of the tax rates which, to the best of our current knowledge and based on existing and clearly expected tax legislation, will be used for the adjustment of the valuation methods. Deferred tax liabilities are created for temporary differences that result in a tax charge when reversed. Deferred tax assets are recognised, provided tax relief is expected at the point at which temporary differences are reversed, and if it is probable that they can be utilised. Deferred tax assets are only recognised for tax losses carried forward if future utilisation can be assumed with sufficient probability. Should actual tax rates differ from these estimates, the balance sheet entries for deferred taxation recoverable and deferred taxation will be adjusted accordingly.

Tax expenses or income are reported in the consolidated income statement in the tax expenses item. Depending on the treatment of the underlying circumstances, deferred income tax assets and liabilities are recognised and reversed either in the income statement in the tax expenses item or in the corresponding shareholders' equity through profit or loss. Discounts are not taken into account.

Deferred taxation recoverable is offset against the deferred taxation where a right to offset exists and the deferred tax assets and liabilities relate to tax expenses that are charged by the same tax authority on the same taxable entity. As a result of the consolidated tax-filing status that exists and a tax obligation that relates almost exclusively to the German tax authorities, taxation recoverable and taxation can be largely offset within the Group.

16 Share-Based Payments

The performance-related remuneration components for certain employees (material risk takers) and the Management Board are, over a defined volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The performance-related components can be paid either in full in the following year or in different tranches over several years. Payment of these performance-related remuneration components in HSBC Holdings plc shares is made indirectly by a trustee on the basis of the cash funds transferred for this purpose by the HSBC Trinkaus & Burkhardt Group. This type of remuneration is reported as a cash-settled share-based payment transaction pursuant to IFRS 2.30 et seqq. Upon performance of the services by the respective beneficiary, staff expenses are recognised already in full as an expense for the period, as these kinds of remuneration claim are generally non-forfeitable according to the Federal Labour Court (Bundesarbeitsgericht – BAG).

17 Recognition 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, as well as from other financial assets mandatorily recognised at fair value through profit or loss. Interest expense includes in particular expenses arising from deposits by banks and customer accounts, as well as subordinated capital. Negative interest rates for financial instruments carried as assets are reported in interest expense and for financial instruments carried as liabilities in interest income.

The Group participated in the "Targeted Longer-Term Refinancing Operations III" (GLRG III) issued by the European Central Bank. In the current interest rate environment, the refinancing operations in which the Bank has participated will bear interest at a rate of 50 basis points below the average main refinancing rate for the period from June 2020 to June 2021. We disclose the resulting interest income as interest income from financial instruments on the liabilities side. In order to provide incentives for lending, credit institutions also receive a premium in the form of an additional discount on the interest rate if certain conditions are met. As the fulfilment of these conditions is not sufficiently certain, this interest benefit is currently not recognised in profit or loss.

The Bank generally recognises dividends at the time of the legal creation of the dividend entitlement at fair value through profit or loss. The only exceptions to this are capital repayments on equity instruments recognised at fair value through other comprehensive income, which are recognised at fair value through other comprehensive income.

Net loan impairment provision in the lending and securities business comprises the earnings effects from the application of the impairment provisions of IFRS 9. These also include expenses and income from the creation or reversal of provisions for off-balance sheet commitments in the lending business, any direct write-offs and recovery payments from previously written-off loans and advances.

Fee income and expenses from securities business, asset management, the foreign exchange business, capital financing, payments/documentary business, the lending business and from other services are reported under net fee income.

Revenue from contracts with customers is recognised in accordance with the provisions of IFRS 15. In line with the five-stage model that is decisive for the recognition of revenues, we allocate corresponding, pro rata if necessary (individual) transaction prices to our contracts with customers or the individual performance obligations contained therein and collect the associated revenues on fulfilment of our respective performance obligation(s) through profit or loss. Transaction prices are determined by the consideration a company expects to receive from the customer for the transfer of goods or provision of services. The service performed is accompanied by the invoicing and generally by a prompt due date of payment. Generally speaking, subsequent chargebacks or refunds are not planned. We recognise period-based, revenue collected on a pro rata basis from contracts with customers at a point in time if the customer is provided with the service over a period of time and has also availed evenly of the benefits. Because of the period-related parallelism of the provision of services and economic life, we find this to be appropriate.

We recognise fees relating to services that we provide in full already at the start of a transaction but do not receive until at a later stage over a determined period in the future on a present value basis as a direct result of the provision of services in fee income. Pursuant to IFRS 15, the outstanding fee payments are receivables, as the payments depend solely on the passage of time.

If the Group assumes the role of agent in the provision of services, the service-related fee is passed on to third parties outside the Group, without reporting the corresponding income and expenses in the consolidated income statement. This concerns fees for portfolio management services provided by third parties outside the Group for special assets, where the capital management is assumed by a group company under the German Investment Code (Kapitalanlagegesetzbuch – KAGB).

Pursuant to IFRS 15.B35 et seqq, if the Group operates independently (principal) in providing the customer with a service or as an intermediary (agent), we assess if our Group controls the service before it is transferred to the customer. The Group operates as an agent, for example, if it does not have primary responsibility for providing the service.

All realised and unrealised income from financial assets held for trading, including the interest and dividend income attributable to trading activities, is recognised in net trading income. This also includes the hedge result and the result from banking book derivatives.

Income from the valuation and disposal of non-derivative financial instruments that are measured at fair value through profit or loss, but not assigned to the trading activities, are reported in the current reporting period in net profit from other financial assets mandatorily recognised at fair value through profit or loss.

We recognise gains and losses from the disposal of assets measured at amortised cost in the item of the same name within the income statement.

Income from financial assets includes income from the disposal of debt instruments recognised up to then at fair value through comprehensive income.

18 Change in Accounting Policies

(a) For reporting periods presented

The accounting and valuation methods applied in preparing these consolidated financial statements are in line with those applied in the 2019 financial year, except with regard to the following:

First-time application of amended standards and interpretations

Following the G20 request to the Financial Stability Board, a fundamental review and reform of the main reference interest rates (Interbank Offered Rates, abbreviated form: IBOR) are taking place in the world's largest financial markets. As a result, the reference interest rates that have been customary in the market up to now are being adjusted or replaced by newly developed, alternative interest rates. In the euro area, for example, a new reference interest rate has been introduced in the form of the Euro Short Term Rate (€STR), which replaces the reference rate EONIA (Euro OverNight Index Average). €STR is based on the money market statistics of the Eurosystem and has been used by the ECB since 2 October 2019. At the same time, the calculation of the EONIA was changed so that it is now calculated from the €STR plus a fixed spread of 8.5 basis points. Publication of the EONIA is expected to be discontinued at the turn of 2021/2022. On the other hand, market participants will continue to have the reference interest rate EURIBOR (Euro InterBank Offered Rate). In November 2019, however, the determination procedure for the latter was adjusted to the effect that it now meets the requirements of the EU benchmarks regulation.

As a first reaction to possible effects of the IBOR reform, the IASB issued various amendments to IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" on 26 September 2019. As part of Phase 1 of the project to support the IBOR reform, the IASB had dealt with the possible effects of the reform on hedge accounting. The amendments adopted by the IASB in Phase 1 effect a number of temporary exemptions from the application of specific hedge accounting requirements and also concern clarifications as to how the requirements are to be applied in these circumstances. One of the consequences of these amendments is that relationships in hedge accounting must be continued which might otherwise have had to be terminated due to the uncertainty resulting from the IBOR reform. In addition, as part of these amendments, IFRS 7 was supplemented by disclosure requirements that relate essentially to the nature and extent of the effects of the IBOR reform on the reporting entity. The amendments are to be applied for the first time for fiscal years beginning on or after 1 January 2020. The amended provisions have been endorsed under European legislation (EU endorsement).

Furthermore, on 27 August 2020, the IASB adopted various amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" as part of Phase 2 of its project to support the IBOR reform. In this phase, the IASB was looking at the financial reporting implications of actually replacing an existing benchmark rate. With the amendments published in August 2020, the IASB has introduced the following practical simplifications relating to the application of certain provisions in various accounting standards as well as more extensive disclosure requirements.

On the one hand, simplifications are introduced in the application of the regulations regarding the modification of financial instruments. According to these, modifications that are required as a direct result of the IBOR reform and are made on an economically equivalent basis are to be accounted for under the amended rules by way of updating the effective interest rate of the contractually adjusted financial instrument. Modifications that do not meet the aforementioned requirements are to be accounted for in the same way as before according to the existing provisions of IFRS 9.

A comparable relief was introduced for the accounting of leases on the part of the lessee under the application of IFRS 16.

What is more, the IASB has once again made changes to the regulations on hedge accounting in order to introduce practical simplifications with regard to the formal requirements for hedge accounting. Accordingly, hedge accounting can be continued despite the conversion of the financial instruments involved to a new reference interest rate if the adjustment of the financial instruments and the associated documentation is solely due to the need for adjustment as a result of the IBOR reform. In this context, the continued existence of the modified hedging relationship requires that all criteria for the application of hedge accounting, including the effectiveness requirements, are met.

The changes to the accounting standards described above are accompanied by extended disclosure requirements in the notes. The additional disclosures are intended to present the nature and extent of the risks arising from the IBOR reform to which the reporting entity is exposed. It should also indicate how the company is managing these risks and what progress the company is making in the transition from the previous reference rates to alternative reference rates.

According to the IASB's guidance, these amendments are effective for reporting periods beginning on or after 1 January 2021. Early application is permissible. The amended accounting standards were adopted into European law on 13 January 2021. The HSBC Trinkaus & Burkhardt Group is making use of the option of early application, so the amended provisions are already taken into account in the present consolidated financial statements.

The conversion of transactions affected by the IBOR reform to alternative reference interest rates is being carried out in the HSBC Trinkaus & Burkhardt Group as part of a project in close coordination with the HSBC Group. The main objectives of the IBOR project are:

- to determine how the respective business areas will be affected by the changeover to the alternative reference interest rates,
- to develop (intra-divisional) measures to implement the transition to the alternative reference rates for the respective business lines in line with the overarching measures in the HSBC Group,
- to coordinate and monitor (internal) implementation measures and
- to implement the measures agreed across the board from the overall project of the HSBC Trinkaus & Burkhardt Group and the HSBC Group for the respective business divisions.

In 2020, the Group underwent intense preparation for the conversion of the affected transactions from the previous interest rates to alternative reference interest rates. The initial inventory of affected transactions was updated at regular intervals in 2020. Working groups addressed the various aspects of the changeover across divisions, developing and initiating measures to ensure a successful changeover. Necessary systemic adjustments were initiated and have now been largely completed. In 2020, transactions were already concluded based on newly developed alternative reference interest rates. According to project planning, the conversion of the existing business to be adjusted due to the discontinuation of the contractually agreed reference interest rate will mainly take place in 2021 in coordination with the respective business counterparties.

The following table shows the existing business as at the reporting date of 31 December 2020 that is affected by the IBOR changeover based on its term and therefore has to be contractually changed over to alternative reference interest rates, broken down by the main reference interest rates that will not be continued in the future. Existing business that is linked to a reference interest rate that, according to current knowledge, is not to be converted to an alternative reference interest rate, as well as business that fulfils the requirements of the IBOR reform by adjusting the respective procedure for interest rate determination (e.g. EURIBOR), is shown in the following table as business that is not affected by the IBOR reform. Similarly, existing business that is linked to a reference interest rate that is to be replaced but no longer has to be converted to an alternative reference interest rate due to the contractual maturity in 2021 is shown in the table as business not affected by the IBOR reform. The information in the columns on the transactions affected by the IBOR reform does not take into account the net loan impairment provision formed for these transactions.

31 December 2020	Impacted by IBOR Reform						
Book value in €m	**USD – LIBOR**	**GBP – LIBOR**	**Eonia**	**Other**	**Total impacted by IBOR Reform**	**Not impacted by IBOR Reform**	**Total**
Non-derivative financial assets	**493.6**	**121.4**	**0.0**	**10.7**	**625.7**	**26,687.0**	**27,312.7**
Cash reserve	0.0	0.0	0.0	0.0	0.0	10,454.4	10,454.4
Loans and advances to banks	0.0	0.0	0.0	0.0	0.0	1,567.5	1,567.5
Loans and advances to customers	493.6	121.4	0.0	10.7	625.7	7,891.1	8,516.8
Trading assets	0.0	0.0	0.0	0.0	0.0	2,639.0	2,639.0
Other financial assets mandatorily recognised at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	84.4	84.4
Financial assets	0.0	0.0	0.0	0.0	0.0	4,050.6	4,050.6
Non-derivative financial liabilities	**105.0**	**19.7**	**0.9**	**0.0**	**125.6**	**24,743.3**	**24,868.9**
Deposits by banks	0.0	15.2	0.0	0.0	15.2	4,288.4	4,303.6
Customer accounts	105.0	4.5	0.9	0.0	110.4	18,021.2	18,131.6
Trading liabilities	0.0	0.0	0.0	0.0	0.0	1,902.8	1,902.8
Subordinated capital	0.0	0.0	0.0	0.0	0.0	530.9	530.9

<table>
<tr><th>31 December 2020</th><th colspan="5">Impacted by IBOR reform</th><th></th><th></th></tr>
<tr><th>Nominal values in €m</th><th>USD – LIBOR</th><th>GBP – LIBOR</th><th>Eonia</th><th>Other</th><th>Total impacted by IBOR Reform</th><th>Not impacted by IBOR Reform</th><th>Total</th></tr>
<tr><td>Positive market values of derivative financial instruments</td><td>328.5</td><td>3.1</td><td>425.5</td><td>0.0</td><td>757.1</td><td rowspan="2">110,773.3</td><td rowspan="2">111,859.7</td></tr>
<tr><td>Negative market values from derivative financial instruments</td><td>280.4</td><td>38.9</td><td>10.0</td><td>0.0</td><td>329.3</td></tr>
</table>

The IBOR reform does not have any significant impact on risk management strategy or hedge accounting.

In the HSBC Trinkaus & Burkhardt Group, hedge accounting rules are applied to hedge the market interest rate risk of fixed-interest bonds, loans and registered bonds issued with hedging instruments on an individual transaction basis (so-called micro fair value hedge accounting). In doing so, we make use of the option under IFRS 9 to continue to apply the regulations under IAS 39 for hedge accounting. As a result, the amended regulations lead to temporary simplifications in the application of the regulations in the consolidated financial statements during the uncertainty period before the replacement of a valid reference interest rate by an alternative interest rate. As part of these temporary exceptions, it can be assumed, among other things, that the reference interest rates for the purpose of hedge accounting will remain unchanged for as long as the period of uncertainty exists.

In 2020, the majority of the hedging instruments recognised in hedge accounting at HSBC Trinkaus & Burkhardt Group were based on the EURIBOR reference interest rate, which will be adjusted as a result of the reform but not replaced by another reference interest rate. Other hedging instruments recognised in hedge accounting already refer to the new reference interest rate €STR, so the amended provisions will not have any effects here either. The new rules are therefore only of significance for a small number of hedging relationships recognised in the consolidated financial statements which are based on the reference interest rate EONIA on the variable side of the hedging instrument (31 December 2019: two hedging instruments with a nominal value of €105 million, 31 December 2020: unchanged). As these transactions extend beyond 2021 in accordance with the contract, they will have to be converted with regard to the reference interest rate used. It is currently expected that the EONIA reference rate of these hedging instruments will be changed to a €STR reference rate by the end of 2021. We do not expect the conversion of the reference interest rates for the few hedging relationships affected by the IBOR reform to have a significant impact on the HSBC Trinkaus & Burkhardt consolidated financial statements.

Against the backdrop of the COVID-19 pandemic, the IASB published an amendment to IFRS 16 “Leases” on 28 May 2020 which will make it easier for lessees to account for rental concessions, for example in the form of rent deferrals or rent relief. According to this amendment, lessees have an option to waive the assessment of whether a rental concession in connection with the COVID-19 pandemic constitutes a modification of an existing lease with respect to lease payments that were originally due by 30 June 2021. Providing no other material changes to the lease agreement have been agreed, such a rent concession is not accounted for as a modification of the lease if the option is exercised. The amendment is to be applied retrospectively for the first time in reporting periods beginning on or after 1 June 2020. The amended regulations have been adopted into EU law. The amendments to IFRS 16 do not have a material impact on the consolidated financial statements of HSBC Trinkaus & Burkhardt.

Other standards and interpretations that became mandatory in the EU from 1 January 2020 were taken into consideration in the preparation of the consolidated financial statements and did not have any effect on the HSBC Trinkaus & Burkhardt consolidated financial statements. This concerns the changes to the framework for IFRS standards, the amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” on the definition of materiality and the amendments to IFRS 3 “Business Combinations”.

(b) For future reporting periods

IAS 8.30 requires the reporting of known or reasonably estimable information relevant to assessing the possible impact the application of new IFRS will have on the financial statements of companies in the period of initial application. The following presentation on the expected impact of the initial application of new accounting principles are each based on the current status of the preparations for their introduction and the current frameworks. However, the facts and circumstances pertaining to the respective time of initial application are decisive for the actual effects of the initial application of new or changed accounting principles. Depending on future developments, the actual effects of the initial application of new accounting principles can vary substantially from the expectations described below.

The IASB published the new accounting standard IFRS 17 “Insurance Contracts” in mid-May 2017. IFRS 17 redefines the accounting treatment of insurance contracts and the measurement of insurance liabilities, thus replacing IFRS 4. Published in 2017, the standard provides for mandatory application of the new accounting standards for financial years beginning on or after 1 January 2021. However, the IASB published amendments to IFRS 17 on 25 June 2020. Among other things, the amendments provide for the mandatory first-time adoption of IFRS 17 to be postponed by two years to reporting periods beginning on or after 1 January 2023. Furthermore, the amendments to IFRS 17 introduce additional exemptions from the area of application of IFRS 17, for example for credit card contracts and certain loan agreements. At the same time as publishing the amendments to IFRS 17, the IASB published amendments to IFRS 4, which extend the provisions on temporary exemptions from the application of IFRS 9 by two years. With the exception of the latter amendments to IFRS 4, the new or amended regulations have not yet been adopted into European law. The effects of IFRS 17, including the changes to the accounting standards mentioned above, on the HSBC Trinkaus & Burkhardt consolidated financial statements are currently being analysed.

Furthermore, on 23 January 2020 the IASB issued amendments to IAS 1 "Presentation of Financial Statements" concerning the classification of liabilities as current or non-current. The aim of the amendments is to introduce a more general approach to the classification of liabilities according to IAS 1, based on the contractual agreements existing at the respective reporting date. Accordingly, a liability is to be classified as non-current if, at the balance sheet date, the reporting entity has a right to defer settlement of the liability for at least twelve months after the balance sheet date. According to the original plan, the amendments were to take effect on 1 January 2022. In July 2020, the IASB decided to postpone the effective date of the amendments to IAS 1 with regard to the classification of liabilities by one year to annual reporting periods beginning on or after 1 January 2023. The amendments have not yet been adopted into EU law. The impact of these changes to IAS 1 on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed.

On 14 May 2020, the IASB published amendments to various accounting standards. These firstly involve amendments to IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Secondly, the IASB completed the annual improvement process in the 2018-2020 cycle and adopted amendments with, in the IASB's opinion, at most minor effects on companies preparing their financial statements. The accounting standards affected by these changes are IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 9 "Financial Instruments", IFRS 16 "Leases" and IAS 41 "Agriculture". Subject to the adoption of these amendments into EU law, the amended standards will be effective for the first time for reporting periods beginning on or after 1 January 2022. Voluntary application earlier than this is not permitted. According to an initial assessment, these changes do not have a significant impact on the HSBC Trinkaus & Burkhardt consolidated financial statements.

On 12 February 2021, the IASB issued amendments to IAS 1 "Presentation of Financial Statements", IFRS Guidance Document 2 "Disclosure of Accounting Policies" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendments to IAS 1 and IFRS Guidance Document 2 aim to improve disclosures about accounting policies applied in the financial statements to provide more useful information to users of financial reporting. The amendments to IAS 8 concern the definition of accounting estimates and are intended to help distinguish between accounting policies and accounting estimates. Subject to their adoption into EU law, the amendments to IAS 1 and IAS 8 will be effective for the first time for reporting periods beginning on or after 1 January 2023. Voluntary application earlier than this is not permitted. With the application of the amendments to IAS 1, it is permissible to also take into account the amendments to IFRS Guidance Document 2. The impact of these amendments on the HSBC Trinkaus & Burkhardt consolidated financial statements is currently being analysed.

19 Special Events 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 Reserves

in €m	31.12.2020	31.12.2019
Cash in hand	1.7	1.3
Balances held with central banks	10,452.7	5,730.2
Total	**10,454.4**	**5,731.5**

21 Loans and Advances to Banks

in €m	31.12.2020	31.12.2019
Current accounts	565.8	1,438.8
Money market transactions	19.9	85.8
of which overnight money	0.0	0.0
of which term deposits	19.9	85.8
Other receivables	175.7	258.4
Collateral items in the derivatives trading business	806.3	204.2
Total (before net loan impairment provision)	**1,567.7**	**1,987.2**
Net loan impairment provision	0.2	0.2
Total (net)	**1,567.5**	**1,987.0**

Loans and advances to banks are reported after deduction of the net loan impairment provision.

22 Loans and Advances to Customers

in €m	31.12.2020	31.12.2019
Current accounts	1,255.1	2,301.3
Money market transactions	828.7	974.9
of which overnight money	26.2	15.5
of which term deposits	802.5	959.4
Loan accounts	5,515.6	6,780.6
Other receivables	602.0	742.0
Lease receivables	12.0	15.6
Collateral items in the derivatives trading business	408.2	105.4
Total (before net loan impairment provision)	**8,621.6**	**10,919.8**
Net loan impairment provision	104.8	53.3
Total (net)	**8,516.8**	**10,866.5**

Loans and advances to customers are reported after deduction of the net loan impairment provision. Other receivables include receivables from contracts with customers (IFRS 15) in the amount of €87.9 million (31.12.2019: €96.1 million). As in the previous year, there were no significant impairment charges in relation to these receivables as at the reporting date. The lease receivables consist of capitalised receivables from subleasing agreements.

23 Trading Assets

in €m	31.12.2020	31.12.2019
Bonds and other fixed-income securities	647.5	853.4
of which:		
public-sector issuers	531.1	588.3
other issuers	116.4	265.1
of which:		
listed	647.5	853.4
unlisted	0.0	0.0
Equities and other non-fixed-income securities	826.2	826.7
of which:		
listed	824.2	826.5
unlisted	2.0	0.2
Tradable receivables	1,165.3	1,121.8
Total	**2,639.0**	**2,801.9**

Tradable receivables are recognised mainly as promissory note loans and purchased receivables.

24 Positive Market Values from Derivative Financial Instruments

in €m	31.12.2020	31.12.2019
Positive market value of derivatives	1,709.6	1,160.3
of which OTC derivatives	1,183.6	970.0
of which exchange-traded derivatives	526.0	190.3
Derivatives in hedging relationships	3.7	3.9
Derivatives held in the banking book	0.0	0.0
Total	**1,713.3**	**1,164.2**

25 Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss

in €m	31.12.2020	31.12.2019
Bonds and other fixed-income securities	37.9	62.1
of which:		
public-sector issuers	0.0	0.0
other issuers	37.9	62.1
of which:		
listed	37.9	62.1
unlisted	0.0	0.0
Hybrid financial instruments	19.3	34.6
Investment certificates	1.1	7.3
Equities and other non-fixed-income securities	0.0	0.0
of which:		
listed	0.0	0.0
unlisted	0.0	0.0
Promissory note loans	0.0	0.0
Investments	26.1	16.9
Total	**84.4**	**120.9**

Pursuant to IFRS 9, we understand financial assets mandatorily measured at fair value through profit or loss as all non-derivative financial instruments of the "hold" and "hold and sell" business models whose contractual cash flows do not exclusively represent principal and interest on the outstanding capital at set times, as well as investments.

26 Financial Assets

in €m	31.12.2020	31.12.2019
Bonds and other fixed-income securities	3,950.6	3,405.1
of which:		
public-sector issuers	2,193.5	1,806.7
other issuers	1,757.1	1,598.4
of which:		
listed	3,937.5	3,340.7
unlisted	13.1	64.4
Promissory note loans	75.1	80.6
Investments	24.9	23.7
Total	**4,050.6**	**3,509.4**

We understand financial assets as all financial instruments of the "hold and sell" business model pursuant to IFRS 9, their contractual cash flows, excluding principal and interest on the outstanding capital at set times, and investments. Bonds and other fixed-income securities, as well as promissory note loans, are measured at fair value without effect on the income statement with recycling. Investments are measured at fair value without effect on the income statement without recycling. The holdings of equity instruments measured at fair value through other comprehensive income relate to a fair value of €24.9 million as at 31 December 2020 (previous year: €23.7 million) indirect shareholdings in Nürnberger Versicherung.

27 Investment Overview

in €m	31.12.2020	31.12.2019
Land and buildings	0.2	66.9
Right-of-use assets	90.5	27.2
Operating and office equipment	43.8	43.2
Property, plant and equipment	134.5	137.3
Intangible assets	77.8	86.3
Total	**212.3**	**223.6**

The rights of use (leasing) reported under property, plant and equipment are rights to leased real estate and motor vehicles. The increase in rights of use results from the rental of the property in Hansaallee, Düsseldorf, which was occupied in the financial year. Regarding the decrease in land and buildings, we refer to the explanations in Note 30.

in €m	Land and buildings	Operating and office equipment	Rights of use	Property, plant and equipment (aggregate)	Intangible assets
Acquisition costs as at 01.01.2020	110.7	129.5	38.1	278.3	193.3
Additions	0.0	26.4	76.3	102.7	20.1
Disposals	110.4	49.5	14.0	173.9	23.1
Acquisition costs as at 31.12.2020	0.3	106.4	100.4	207.1	190.3
Depreciation as at 01.01.2020	43.8	86.3	10.9	141.0	107.0
Scheduled depreciation	1.7	14.9	13.0	29.6	8.6
Non-scheduled depreciation	0.0	1.0	0.0	1.0	11.8
Depreciation of reversals	45.4	39.6	14.0	99.0	14.9
Depreciation as at 31.12.2020	**0.1**	**62.6**	**9.9**	**72.6**	**112.5**
Carrying value as at 31.12.2020	**0.2**	**43.8**	**90.5**	**134.5**	**77.8**
Carrying value as at 31.12.2019	**66.9**	**43.2**	**27.2**	**137.3**	**86.3**

in €m	Land and buildings	Operating and office equipment	Rights of use	Property, plant and equipment (aggregate)	Intangible assets
Acquisition costs as at 01.01.2019	109.9	138.9	41.6	290.4	166.7
Additions	0.8	13.1	0.0	13.9	32.3
Disposals	0.0	22.5	3.5	26.0	5.7
Acquisition costs as at 31.12.2019	110.7	129.5	38.1	278.3	193.3
Depreciation as at 01.01.2019	42.2	91.1	0.0	133.3	97.5
Scheduled depreciation	1.7	15.8	11.3	28.8	5.1
Non-scheduled depreciation	0.0	0.0	0.0	0.0	4.9
Depreciation of reversals	0.1	20.6	0.4	21.1	0.5
Depreciation as at 31.12.2019	**43.8**	**86.3**	**10.9**	**141.0**	**107.0**
Carrying value as at 31.12.2019	**66.9**	**43.2**	**27.2**	**137.3**	**86.3**
Carrying value as at 31.12.2018	**67.7**	**47.8**	**n/a**	**115.5**	**69.2**

Intangible assets include goodwill in the amount of €4.4 million (previous year: €4.4 million), which is attributable to a subsidiary (cash-generating unit) allocated to the Global Banking & Markets segment, and standard software in the amount of €73.4 million (previous year: €81.9 million). As in the previous year, this balance sheet item did not include any intangible assets developed in house in the year under report.

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

Fixed assets are assigned to non-current assets.

28 Taxation Recoverable

in €m	31.12.2020	31.12.2019
Current taxation recoverable	6.8	61.9
Deferred taxation recoverable	82.7	57.2
Total	**89.5**	**119.1**

Current taxation recoverable relates exclusively to receivables from German tax authorities.

The 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 "Income Tax").

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

in €m	31.12.2020	31.12.2019	Change
	As shown in the balance sheet	As shown in the balance sheet	
Trading portfolio and market values of the derivative financial instruments*	–2.6	–1.1	–1.5
Intangible assets	0.0	0.0	0.0
Net loan impairment provisions and provisions for off-balance sheet commitments in the lending business	25.1	5.1	20.0
Pensions	25.0	26.5	–1.5
Other financial assets mandatorily measured at fair value through profit or loss	5.2	5.7	–0.5
Financial assets	4.5	–0.5	5.0
Property, plant and equipment	–6.8	–16.4	9.6
Provisions	13.7	12.2	1.5
Other assets	0.0	0.0	0.0
Other liabilities	0.9	11.0	–10.1
Recognised at fair value through profit or loss	**65.0**	**42.5**	**22.5**
Financial instruments	–33.9	–28.4	–5.5
Foreign currency translation	0.0	–0.1	0.1
Pensions	51.6	43.1	8.5
Through other comprehensive income	**17.7**	**14.6**	**3.1**
Deferred taxes	82.7	57.1	25.6
of which taxation recoverable	82.7	57.2	25.5
of which taxation	0.0	0.1	–0.1

* Balance from measurement differences in all trading activities

Within the scope of the provisions for the treatment of deferred taxes, the deferred taxation recoverable was offset against deferred taxation, as in previous years.

The losses at the Luxembourg location cannot be used for tax purposes, as it is highly probable that in future there will be no taxable profits against which these tax losses can be offset. The loss carryforwards that can be carried forward indefinitely amount to €21.3 million (previous year: €21.5 million), of which €8.4 million (previous year: €8.6 million) relate to companies abroad. As in the previous year, there are no temporary differences on outside basis differences.

Deferred taxation recoverable is primarily assigned to non-current assets. Current taxation recoverable is primarily assigned to current assets.

29 Other Assets

The book value of other assets is almost unchanged at €66.5 million after €68.7 million in the previous year.

The other assets contain outstanding receivables from the securities services business at our subsidiaries, accrued income, cash collateral for the bank levy and the compensation scheme of German banks, and other receivables.

Other assets are primarily assigned to current assets.

30 Non-Current Assets Held for Sale

A property including related fixtures and fittings previously reported under “Investment Overview” was classified as held for sale in the second half of 2020, as the Group is now eager to sell the property within the next twelve months and has already started actively marketing it. The sale process is expected to be successfully concluded in the 2021 financial year. The classification of the property as held for sale did not have any impact on the Group’s income statement in the 2020 financial year. The property is allocated to the Corporate Centre segment.

31 Subordinated Assets

in €m	31.12.2020	31.12.2019
Bonds and other fixed-income securities	120.1	197.7
Profit-participation certificates	2.7	2.5
Total	**122.8**	**200.2**

32 Repurchase Agreements and Securities Lending

The Bank is active as a collateral taker and a collateral provider within the scope of repurchase agreements and securities lending transactions. The transactions are executed at prevailing market conditions.

The following overview includes the securities that cannot be reported in accordance with IFRS 9, as well as the associated financial liabilities. Securities that we have previously obtained within the scope of securities lending transactions and repurchase agreements are reported, in addition to our own securities. The transferred own securities are disclosed as trading assets.

in €m	31.12.2020		31.12.2019	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated financial liabilities	Fair value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	–	–	–	–
Securities lending transactions	58.9	7.0	69.8	42.1
Total	**58.9**	**7.0**	**69.8**	**42.1**

The following overview includes the financial instruments that cannot be reported in accordance with IFRS 9, as well as the associated receivables. There is no on-balance sheet netting.

in €m	31.12.2020		31.12.2019	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated financial receivables	Fair value of the transferred financial assets	Book value of the associated financial receivables
Repurchase agreements	–	–	–	–
of which may be sold or pledged	–	–	–	–
of which are already sold or pledged	–	–	–	–
Securities lending transactions	85.3	2.9	167.5	–
of which may be sold or pledged	59.1	–	157.7	–
of which are already sold or pledged	26.1	–	9.7	–
Total	**85.3**	**2.9**	**167.5**	**–**

33 Deposits by Banks

in €m	31.12.2020	31.12.2019
Current accounts	696.0	350.2
Money market transactions	2,237.5	1,414.1
of which overnight money	0.0	0.0
of which term deposits	2,237.5	1,414.1
Other liabilities	882.1	816.3
Collateral items in the derivatives trading business	488.0	27.5
Total	**4,303.6**	**2,608.1**
of which domestic banks	3,264.3	1,925.3
of which foreign banks	1,039.3	682.8

This item includes €2.2 billion in targeted longer-term refinancing operations (GLRG) III. In the financial year, we received interest income of €7.7 million from GLRG.

34 Customer Accounts

in €m	31.12.2020	31.12.2019
Current accounts	16,839.2	15,308.0
Money market transactions	1,031.7	1,973.5
of which overnight money	284.7	435.8
of which term deposits	747.0	1,537.7
Savings deposits	2.7	2.9
Other liabilities	208.8	308.4
Collateral items in the derivatives trading business	49.2	58.0
Total	**18,131.6**	**17,650.8**
of which domestic customers	16,963.5	16,478.5
of which foreign customers	1,168.1	1,172.3

35 Trading Liabilities

in €m	31.12.2020	31.12.2019
Promissory note loans	260.8	260.9
Bonds	510.1	556.2
Certificates and warrants	1,110.0	956.5
Delivery obligations arising from securities sold short	21.9	20.2
Total	**1,902.8**	**1,793.8**

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading divisions.

36 Negative Market Values from Derivative Financial Instruments

in €m	31.12.2020	31.12.2019
Negative market value of derivatives	1,363.3	1,040.2
of which OTC derivatives	1,270.0	894.3
of which exchange-traded derivatives	93.3	145.9
Derivatives in hedging relationships	51.2	29.8
Total	**1,414.5**	**1,070.0**

37 Provisions

Provisions are broken down as follows:

in €m	31.12.2020	31.12.2019
Provisions for pensions and similar obligations	61.7	34.6
Provisions for off-balance sheet commitments in the lending business	13.1	11.3
Other provisions	91.5	82.9
Total	**166.3**	**128.9**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations developed as follows in 2020:

in €m	Pensions and similar obligations	Partial retirement	Statutory retirement age	Other	Total
As at 01.01	**22.9**	**1.9**	**3.7**	**6.0**	**34.6**
Change in the plan assets	0.2	–1.0	–1.8	0.0	–2.6
Pensions paid	–10.2	–1.2	0.0	0.0	–11.4
Additions (incl. projected income)	9.5	1.6	3.4	0.3	14.8
Transfers/other	0.0	0.0	0.0	–0.6	–0.6
Changes recognised at fair value through other comprehensive income arising from the remeasurement of the net pension obligation	26.9	0.0	0.0	0.0	26.9
As at 31.12	**49.3**	**1.3**	**5.3**	**5.7**	**61.7**

Administrative expenses for pensions and other employee benefits are made up of the following components:

in €m	2020	2019
Expenses for defined benefit plans	14.8	20.0
of which current service costs	15.6	23.6
of which interest expense	4.4	7.1
of which past service cost	–1.9	0.0
of which estimated income from the plan assets	–3.3	–10.7
Expenses for defined contribution plans	7.1	7.3
Other expenses for retirement provisions	1.0	0.8
Total	**22.9**	**28.1**

In addition, we recognised €18.2 million in personnel expenses (previous year: €18.3 million) as employer contributions to the statutory pension insurance. Expenses for defined contribution plans include contributions to the mutual pension fund scheme organised for the German banking sector, BVV Versicherungsverein.

The expenses for defined benefit plans include past service costs from our efficiency programme.

Various pension payment and benefit regulations exist for employees depending on the date the employee joined the Group. The plan characteristics of the pension commitments that are classified as defined benefit plans within the meaning of IAS 19 are outlined below.

Collective regulations
(a) Legal framework
The commitments based on the company pension scheme were made to employees as collective regulations in the form of company agreements that are structured as direct pension commitments.

(b) Open regulations for new business
Within the scope of the current open regulation for new business funded by the employer (VO 2013), the Bank pledges capital contributions to its employees in the event of retirement, invalidity and death. The commitment is a defined contribution scheme; the benefits arise as capital components from the committed contribution through a guaranteed rate of interest. The amount of the guaranteed return can be adjusted for future components in line with a changed interest rate environment. Each contribution period is ten years after the end of the reporting period. The Bank may at any time determine if and how to extend the contribution period. If the Bank has not issued any declaration by the end of a financial year, the contribution period is deemed to have been extended by another year.

(c) Closed regulation
Employees who joined the company in the period from 1 January 2001 to 30 June 2013 are subject to a regulation (VO 2001) in line with the VO 2013, which differs largely from the current regulation regarding the committed guarantee interest rate. This pension fund consists of the vested benefits of former employees but no current pension benefits.

Two further pension plans exist for employees who joined the company before 31 December 2000 and former employees of the Hamburg branch; these were closed for new policies. Beneficiaries of these regulations receive benefits in the form of lifelong old-age, invalidity and survivors' pensions. These are final salary schemes dependent on the length of service with a divided benefit formula. The pension is paid when the benefit falls due as a percentage share of the pensionable income, whereby different percentages for income components below and above the contribution assessment ceiling in the statutory pension scheme are envisaged based on years of service.

In addition to active members of staff, this regulation covers former employees with vested entitlements to a lifelong current pension and old age beneficiaries. These receive a lifelong pension for which an adjustment review is conducted in accordance with section 16 (1) of the Occupational Pensions Act (Betriebsrentengesetz – BetrAVG).

A contribution-oriented capital commitment is in place for a closed group of candidates. The Bank has concluded reinsurance policies with leading German insurance companies for this group, so that the employee receives exactly the benefit built up under the reinsurance policy.

(d) BVV Versicherungsverein des Bankgewerbes a.G.
In addition, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a.G. or to BVV Versorgungskasse des Bankgewerbes e.V. These are treated as a defined contribution plan (IAS 19.46). Some of the contributions consist of the employees' deferred compensation. Provisions were not created for the services to be provided by BVV, as the probability of the mandatory subsidiary responsibility being utilised is classified as very low.

(b) Lifelong working time account model
All of the Group's staff have the option to extend their pension provision via the lifelong working time account (Lebensarbeitszeitkonto – LAZK). This model aims to provide employees with a flexible means of providing for their future. By converting salary, overtime or special payments, the model allows active gainful employment to be ended even before the official retirement age. In addition, care-giving periods and periods of parental leave are possible while receiving partial or full salary payments.

Individual commitments
Final salary-based individual commitments to lifelong regular benefits exist for former and active Management Board and Executive Committee members, as well as former Managing Partners. Contribution-oriented capital plan commitments were agreed individually for recently appointed members of the Management Board. In addition, some former Management Board and Executive Committee members, as well as Managing Partners, received a capital commitment from the deferred compensation. The guaranteed return on the contributed conversion amount is defined; the capital is paid out in instalments.

The former Management Board and Executive Committee members, and the Managing Partners or their surviving dependants, are beneficiaries or have a corresponding vested benefit.

Financing
Plan assets were created to fund the pension obligations and separated through what is known as a contractual trust agreement (CTA). HSBC Trinkaus Vermögenstreuhänder e. V. and HSBC Trinkaus Mitarbeitertreuhänder e. V. assume the role of trustee. Active members of the trustee constitute four members of the Management Board of the Bank, one member of the Supervisory Board and seven Bank employees.

The Bank regularly aims to comprehensively finance the committed benefits externally. There is no obligation to allocate contributions to the CTA. The Bank is entitled to assets that are not needed to fund the committed benefits. In the year under report, €1.0 million were transferred to the plan assets. No further additions to the plan assets are envisaged at the present time.

In accordance with the Memorandum and Articles of Association, the revenues may only be used, for example, for pension payments or for reinvestment. Similarly, withdrawals may only be made in accordance with the Memorandum and Articles of Association. In so far as the benefits are directly committed and there is a shortfall in the CTA, provisions are created for these. The leading German reinsurance companies fund the reinsurance ancillary capital commitments through reinsurances.

The strategic aim of the investment is to achieve as continuous an increase in value as possible over time. For this purpose, the fund invests mainly in government bonds, corporate bonds, investment funds and equities. It invests predominantly in the developed regions. Overall, emphasis is placed on a high degree of diversification.

Risk aspects
The Bank bears the adjustment risks of the lifelong regular benefits from the entitlements to lifelong pensions and the obligation to pay lifelong benefits from existing commitments. This effectively means a pension increase in accordance with consumer price development. At the same time, adjustment risks arise from dynamic withdrawal components.

There are also longevity risks in relation to the lifelong benefits. The actuarial tables used to measure the present value of the obligations take into account the increase in life expectancy currently foreseeable as generation tables.

The adjustments and longevity risks were largely eliminated for the capital commitments given since 2001 and above all for the pension fund open to new business.

The Bank reduced the balance sheet and financing risks by using contributions to the CTA and the existing cover assets. However, financing risks arise if the returns on the cover assets do not correspond to the assumed return on the present value of the obligation. Balance sheet risks also arise from fluctuation in the actuarial interest rate used to calculate the present value of the obligation if the change in the present value of the obligation from the fluctuation in the actuarial interest rate is not offset by a corresponding change in the fair value of the cover assets.

The defined benefit obligation (DBO) of the closed pension funds amounts to €306.1 million in the reporting period (previous year: €283.6 million), of which €77.1 million (previous year: €73.8 million) are attributable to the beneficiaries. The DBO of the individual commitments amounts to €78.2 million (previous year: €76.4 million), of which €60.9 million are attributable to the beneficiaries (previous year: €48.7 million). The

DBO of the open pension fund (in force since 1 July 2013) amounts to €7.5 million (previous year: €6.1 million). Capital commitments account for €75.9 million (previous year: €68.8 million).

The pension obligations are calculated in the actuarial opinion using the projected unit credit method. Besides the current mortality tables (Heubeck tables 2018 G), we base these annual measurements on the following parameters:

in %	31.12.2020	31.12.2019
Base rate of interest for pensions	0.70	1.05
Base rate of interest for obligations from partial retirement and early retirement regulations	–0.17	0.02
Base rate of interest for obligations similar to pension obligations and anniversary obligations	0.44	0.73
Base rate of interest for LAZK	0.44	0.73
Estimated salary increases	2.50	2.50
Estimated pension indexation	1.50	1.50
Estimated rate of inflation	1.75	1.75
Expected increase in the contribution ceiling for social insurance	2.9	2.9

The base rate of interest is calculated on the basis of the average yield on long-term and first-class bonds. The duration of obligations for pensions is 18.2 years (previous year: 18.1 years); the duration of obligations from partial retirement and early retirement regulations is unchanged from the prior year at three years, and the duration of obligations similar to pension obligations and provisions for jubilee payments is also unchanged from the prior year at 10 years. The consultancy company Willis Towers Watson's "Global Rate: Link" is used for calculating interest. This includes bonds rated at least AA while taking other specific factors into account.

Sensitivity analyses for the defined benefit obligations

Pursuant to IAS 19.145, the extent by which the key measurement assumption for the DBO could reasonably" change during a one-year period must be determined.

The actuarial interest rate, salary trend and pension trend are considered to be significant assumptions. The following disclosures relate to the sensitivities of the DBO for pensions:

Measurement parameter as at 31.12.2020	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	0.70%	–1.00 percentage points	20.8%
Base rate of interest	0.70%	+1.00 percentage points	–15.9%
Development of salaries	2.50%	–0.50 percentage points	–2.1%
Development of salaries	2.50%	+0.50 percentage points	2.3%
Pension increase	1.50%	–0.25 percentage points	–2.8%
Pension increase	1.50%	+0.25 percentage points	2.9%
Life expectancy	Pursuant to RT 2018 G	+1 year for a person currently aged 65	3.9%

Measurement parameter as at 31.12.2019	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	1.05%	–1.00 percentage points	20.6%
Base rate of interest	1.05%	+1.00 percentage points	–15.8%
Development of salaries	2.50%	–0.50 percentage points	–2.1%
Development of salaries	2.50%	+0.50 percentage points	2.4%
Pension increase	1.50%	–0.25 percentage points	–2.8%
Pension increase	1.50%	+0.25 percentage points	2.9%
Life expectancy	Pursuant to RT 2018 G	+1 year for a person currently aged 65	3.8%

Breakdown of pension obligations

in €m	2020	2019	2018	2017	2016
Non-funded pension obligations	**1.2**	**1.1**	**1.0**	**1.0**	**0.9**
Funded pension obligations					
Present value of the pension obligations	546.2	511.0	464.1	443.0	424.5
Fair value of the plan assets	485.9	477.7	367.1	371.4	352.3
Balance	**60.3**	**33.3**	**97.0**	**71.6**	**72.2**
of which plan shortfall	60.5	33.5	97.2	71.8	74.1
of which plan excess	0.2	0.2	0.2	0.2	1.9
Total pension obligations	**61.7**	**34.6**	**98.2**	**72.8**	**75.0**
Remeasurement of net pension obligations					
from plan assets (before taxes)	15.6	20.3	–0.3	16.0	9.0
from plan obligations (before taxes)	–182.0	–159.6	–145.4	–144.9	–149.9

The cumulative valuation reserves for the remeasurement of net pension obligations, which are recognised at fair value through other comprehensive income, amounted to a loss of €114.8 million after taxes (previous year: loss of €96.3 million).

The losses from the remeasurement of the net pension obligations in the year under report were attributable to the negative development of plan assets compared to the forecast at the start of the year and the impact from the continued decrease in interest rates.

Net debt from defined benefit obligations developed as follows:

in €m	Pension obligations	Plan assets	Net debt
As at 01.01.2019	**465.1**	**367.1**	**98.0**
Service costs	23.6		23.6
Past service cost	0.0		0.0
Gains (losses) from plan settlements	0.0		0.0
Interest expense/income	7.1	10.7	–3.6
Remeasurement	14.2	20.6	–6.4
Actual income excluding interest income		20.6	–20.6
Change in actuarial gains and losses	14.2		14.2
from adjustment to the obligations	–5.3		–5.3
from changes to the demographic assumptions	0.0		0.0
from changes to the financial assumptions	19.5		19.5
Retirement benefits paid directly by the employer	–9.7		–9.7
Retirement benefits paid from the plan assets	–0.2	–0.2	0.0
Sums paid in conjunction with plan settlements	0.0		0.0
Transfers and others	12.0	9.5	2.5
Additions to the plan assets		70.0	–70.0
Withdrawals from the plan assets		0.0	0.0
As at 31.12.2019	**512.1**	**477.7**	**34.4**
of which: pension provisions			34.6
of which: capitalised plan assets			0.2
As at 01.01.2020	**512.1**	**477.7**	**34.4**
Service costs	15.6		15.6
Past service cost	–1.9		–1.9
Gains (losses) from plan settlements	0.0		0.0
Interest expense/income	4.4	3.3	1.1
Remeasurement	22.4	–4.7	27.1
Actual income excluding interest income		–4.7	4.7
Change in actuarial gains and losses	22.4		22.4
from adjustment to the obligations	–1.3		–1.3
from changes to the demographic assumptions	0.0		0.0
from changes to the financial assumptions	23.7		23.7
Retirement benefits paid directly by the employer	–11.2		–11.2
Retirement benefits paid from the plan assets	–0.2	–0.2	0.0
Sums paid in conjunction with plan settlements	0.0		0.0
Transfers and others	6.2	8.8	–2.6
Additions to the plan assets		1.0	–1.0
Withdrawals from the plan assets		0.0	0.0
As at 31.12.2020	**547.4**	**485.9**	**61.5**
of which: pension provisions			61.7
of which: capitalised plan assets			0.2

Distribution of pension obligations

in €m	2020	2019
Assets	354.6	330.4
of which non-forfeitable	195.2	181.0
Vested benefits of former employees	54.7	59.2
Beneficiaries	138.1	122.5
Total	**547.4**	**512.1**

Of the total pension obligations, partial retirement obligations account for €4.7 million (previous year: €4.2 million); LAZK obligations account for €90.1 million (previous year: €79.1 million); anniversary obligations account for €14.6 million (previous year: €15.2 million) and early retirement obligations account for €0.9 million (previous year: €1.1 million).

Impact of the obligations on future cash flows

in €m	2021	2022	2023	2024	2025	2026 – 2030
Future cash flows	11.0	10.7	10.4	11.2	13.2	68.4

Breakdown of the fair value of plan assets

in €m	2020	2019
Bonds and other fixed-income securities	121.2	113.9
Equities	21.2	30.4
Discount/index certificates	17.9	26.6
Liability insurance claims from life insurance	14.5	16.0
Investment funds	264.5	182.2
Closed-end real estate funds	4.0	4.0
Cash	40.1	103.6
Other	2.5	1.0
Fair value of plan assets as of 31.12	**485.9**	**477.7**

With the exception of the reinsurance claims from life insurance policies and the units in closed-end real estate funds, the fair values of the plan assets are based on prices quoted on active markets or on valuation models for which all valuation parameters are observable.

Other provisions

The other provisions developed as follows in 2020:

in €m	As at 1.1.2020	Utilisa-tion	Rever-sals	Addi-tions	Com-pound-ing	Transfers/ others	Situation as at 31.12.2020
Provisions for trade payables for software and hardware	11.7	4.7	3.6	10.7	0.0	0.0	14.1
Provisions for expected interest on retrospective tax payments	10.5	0.8	0.4	0.0	–0.8	0.0	8.5
Provisions for trade payables for goods and services	14.8	3.8	0.9	10.4	0.0	0.0	20.5
Provisions for goodwill and legal risks	9.8	1.3	2.9	3.4	0.0	0.0	9.0
Provisions for the efficiency programme (IAS 37)	10.1	6.7	5.9	27.8	0.0	0.0	25.3
Provisions for the efficiency programme and other compensations (IAS 19)	12.4	6.6	4.9	2.0	0.0	0.0	2.9
Provisions created in conjunction with the discontinuation of certain business activities in Luxembourg	2.2	0.1	0.0	0.0	0.0	0.0	2.1
Provisions for restoration obligations	6.1	1.0	3.2	0.2	0.0	0.0	2.1
Provisions for archiving	2.8	0.0	0.1	0.2	0.0	0.0	2.9
Provisions for other taxes	0.1	0.0	0.0	0.5	0.0	0.0	0.6
Miscellaneous other provisions	2.4	1.4	0.9	3.4	0.0	0.0	3.5
Total	82.9	26.4	22.8	58.6	–0.8	0.0	91.5

The assessment of the expected maturities for the outflow of economic benefits for the remaining provisions is subject to a high level of uncertainty and is estimated at approximately up to five years.

No material legal disputes and associated litigation risks were pending as at 31 December 2020. With regard to the legal risks that must be disclosed, reference is made to the note “Contingent Liabilities and Other Commitments”.

In light of the difficult economic conditions for banks, the management of HSBC Germany launched a Group-wide, multi-year programme to improve internal efficiency as early as 2019. This programme provides for fundamental restructuring in parts of the Group and the relocation of certain business activities to countries where the HSBC Group has already gained positive experience in pooling service and supply functions. At the same time, the bank will increasingly rely on future-oriented technologies such as digitalisation and automation in order to achieve the efficiency goals it has set. After all preparations subject to co-determination (e.g. negotiation of a social plan) for the implementation of the efficiency programme had been completed and communicated within the company in the course of 2019, provisions for severance payments under the programme were already made in the consolidated financial statements as at 31 December 2019.

Due to the COVID-19 pandemic, the management of HSBC Germany decided in March 2020 to temporarily suspend the implementation of the planned job cuts to a large extent and not resume them in full until summer 2020. To counteract the expected negative economic effects of the pandemic, additional measures to increase efficiency were also decided upon and negotiated with employee representatives later in the year; these also fall under the financial framework of the efficiency programme. Against this background, further provisions for severance payments were created during 2020. At the same time, a large number of individual personnel measures for which provisions had already been made in 2019 were completed and the corresponding provisions used up. All in all, the implementation of the various measures of the programme to improve internal efficiency, which has been expanded in parts, is progressing according to plan, taking into account the temporary interruption due to COVID-19.

38 Net Loan Impairment Provision

Determining the net loan impairment provision requirements

Net loan impairment provision requirements are determined and recognised on the balance sheet on the basis of the expected loss model in accordance with IFRS 9. Assets (debt) that are carried at amortised cost or reported at fair value directly in equity showing the changes in value are affected by the regulations on the recognition of impairment under IFRS 9. Loan commitments and financial guarantees granted are also affected.

The reporting of impairments is based on a three-level model. Under IFRS 9, net loan impairment and other credit risk provisions in the amount of the 12-month expected credit losses are recognised for financial assets in the event that the credit risk on the balance sheet date has not increased significantly since initial recognition and has not met the default definition at initial recognition (level 1). Net loan impairment and other credit risk provisions in the amount of the lifetime expected credit losses are recognised for financial assets whose credit risk has increased significantly since initial recognition (level 2) and for credit-impaired assets on the balance sheet date (level 3). Purchased or originated credit impaired (POCI) financial assets are recognised at initial application, after deduction of the lifetime expected credit losses.

We use quantitative and qualitative criteria to assess whether a financial instrument shows an increased default risk since the time of addition. In addition to qualitative criteria, such as principal or interest arrears of more than 30 days and inclusion in the list of exposures subject to closer monitoring, the primary quantitative indicator for the transition from stage 1 to stage 2 is the relative change in the expected probabilities of default since initial acquisition of the respective financial instrument.

In quantitative terms, we determine the changing credit risks of individual financial instruments on the basis of cumulative probabilities of default. To determine whether the credit risk has increased since the time of addition, we compare the average one-year expected probability of default at the time of addition with that of the time of reporting (residual average term forward point-in-time PD). Information about part events, prevailing conditions and forecasts about the future economic environment in the form of different economic scenarios with weightings dependent on their expected probability of occurrence are included in the calculations.

There is a sharp increase in the credit risk, leading to financial instrument previously allocated to level 1 being allocated to level 2, if predefined thresholds that are based on expert estimates and validated at least once a year are reached or exceeded. In the case of customer risk ratings (CRRs) of 0.1 to 1.2 upon recognition, the probability is increased by 15 basis points and by 30 basis points for CRRs of 2.1 to 3.3. For CRRs over 3.3, that are not considered to have defaulted, the credit risk is assumed to have increased significantly, if the probability of default has doubled since acquisition.

For financial instruments with an acquisition date before the date of initial application of IFRS 9, additional criteria depending on the CRR upon recognition are used in order to define a significant increase in the credit risk. In the case of a CRR of 0.1 upon recognition, a significant increase in the credit risks is assumed if the rating deteriorates by five rating grades. Depending on the initial rating, the following minimum deterioration of the rating grades lead to the assumption of a significant increase in the credit risk:

– Initial rating of 0.1	5 rating grades
– Initial rating of between 1.1 and 4.2	4 rating grades
– Initial rating of between 4.3 and 5.1	3 rating grades
– Initial rating of between 5.2 and 7.1	2 rating grades
– Initial rating of between 7.2 and 8.2	1 rating grades
– Initial rating of 8.3	0 rating grades

In qualitative terms, all credit exposures included in the list of exposures subject to closer monitoring (watch-worry-monitor list) and assigned to the Watch or Worry categories cease to belong to stage 1 and are transferred to stage 2 or stage 3 as applicable. This concerns all exposures that need to be transferred from standard credit management to special management because there are confirmed indicators of early risk detection, e.g. negative industry developments or negative reporting about a borrower, showing early signs of increased credit risks. We refer to the section (l) Adjustment of contractual cash flows of financial assets (modifications) for any modifications.

An additional safeguard mechanism (backstop) for determining a significant rise in credit risk is that the interest payments or principal repayments are more than 30 days overdue. We generally do not use the option to refute this assumption as presented in the financial reporting standards. Similarly, we do not use the exemptions for financial instruments with low credit risk (low credit risk exemption).

Moving from stage 3 to a better stage is only possible if the default definition is continuously not met for a period of up to twelve consecutive months.

The assessment of counterparty credit risks is based on appropriate and reliable information about previous events, prevailing conditions and forecasts about the future economic environment, in so far as they are significant for assessing expected credit defaults.

This usually takes into account three future scenarios. The central scenario presents the average development expected from the economic conditions. In addition, two alternative scenarios are generally taken into consideration: one scenario that expects the economic environment to develop more favourably than expected (upside scenario) and another where the economic environment is expected to develop less favourably (downside scenario). Should circumstances require it, additional scenarios are developed and used to assess the counterparty default risks. However, we generally assume that the potential, non-linear development of the economic environment can be adequately depicted using these three scenarios.

Overall, the methodical, procedural and systems-based implementation of the provisions on the recognition of impairments in the amount of the expected credit losses is also largely based on the expertise within the HSBC Group. The scenarios used to measure risks are created using different forecasts from independent sources (e.g. central banks, Oxford Economics) by a team of experts at the HSBC Group, incorporating independent, external consultants. Their relative significance and weighting is then determined in order to determine next steps.

The scenarios are generally based on a five-year forecast period starting from the balance sheet date (point in time approach). The central scenario is developed in two steps. First, central economic figures, specifically GDP development, the unemployment rate, inflation and the rise in property prices are determined for the key HSBC markets. On this basis, a large number of additional indicators are derived in a second step using established economic and industry-specific models. Finally, the expected development necessary for the risk measurement is modelled, taking into account country-specific features. The upside and downside scenarios are drawn up on this basis. The opportunities and risks of a potential positive or negative development tend to be overstated here and possible non-linear developments taken into consideration on the basis of model calculations, empirical values and risk assessments.

The central scenario is updated every quarter, and the two other scenarios are updated annually, unless macroeconomic or political developments require more frequent updates.

However, due to the COVID-19 pandemic, the expectations relating to the development of the economic indicators have changed significantly compared to the previous year. While the COVID-19 pandemic did not play a significant role in the scenarios used as at the previous year's reporting date, the outbreak of the pandemic since the first quarter of 2020 has resulted in a profound adjustment to the assessment of economic development over the next five years. In view of the deterioration of the overall economic situation and the current uncertainties, the frequency for updating the scenarios relevant to the measurement of net loan impairment provisions was also increased in the course of 2020.

In order to take into account the uncertainties and the higher significance of the net loan impairment provision of Levels 1 and 2, all scenarios were updated on a quarterly basis in 2020.

When measuring the net loan impairment provisions for these levels, we take into account forward-looking scenarios for key economic indicators. For the HSBC Trinkaus & Burkhardt Group, these are currently the developments in gross domestic product, the unemployment rate and the equity markets. At the same time, the uncertainty of forecasts is currently unusually high due to a whole range of factors.

These include the further development of the spread of COVID-19, the medium-term effects on global trade and the effectiveness of government support measures in combating the economic effects of COVID-19. Against this background, the severe downside scenario was developed in 2020 as an additional economic scenario and included in the measurement of net loan impairment provisions in order to take sufficient account of the imponderables of the development of the COVID-19 pandemic.

The forecasts for future economic conditions affect the determination of PDs and LGDs. When calculating the PD, the forecast of the economic development is reflected in the default probabilities of specific industries in the respective countries. When calculating the LGD, this impacts in particular on the collateral value and its recovery options.

The scenarios used to measure net loan impairment provisions in the consolidated financial statements as at 31 December 2020 are described below:

The scenario with the highest weighting is the central scenario (weighting: 65%; previous year: 80%), which reflects our predominant expectation of the development of the parameters. This is based on the assumption of a relatively sharp decline due to the global efforts to contain the COVID-19 pandemic and the multiple restrictions they entail, followed by a relatively rapid recovery of the economy assuming that further restrictions will be less limiting and more spatially focused, thereby allowing for a swift economic recovery. In this scenario, we assume an average annual GDP growth rate of +4.2% in 2021, +2.6% in 2022 and an average of +1.6% for the years 2023 to 2025 (previous year: −5.6%). We expect the worst average GDP growth to be −1.5% in the first quarter of 2021. For the unemployment rate, an average level of 6.17% in 2021, 5.91% in 2022 and 5.64% on average for the years 2023 to 2025 (previous year: 5.98%) is assumed. We expect the highest unemployment rate to be 6.26% in the first quarter of 2021. In this scenario, equity markets are subject to an average annual growth rate of +4.5% in 2021, +1.7% in 2022 and 3.0% on average for the years 2023 to 2025 (previous year: +1.4%). At −0.5%, the worst average annual growth rate on the equity market in this scenario is recorded in the third quarter of 2021.

The upside scenario (weighting: 10%; previous year: 10%) assumes a development of economic conditions that is expected to be slightly more favourable than in the central scenario. This scenario is based on the assumption that economic recovery is comparatively faster in the first two years after the outbreak of the COVID-19 pandemic before subsequently resuming its long-term pre-pandemic trends. Among other things, this scenario envisages the development of a vaccine against COVID-19, continued support for the economy through policy frameworks and de-escalation with regard to global trade conflicts. Here, we assume as at the reporting date an average annual growth rate of gross domestic product of +6.1% in 2021 and +4.1% in 2022. The unemployment rate is expected to average 5.57% in 2021 and 5.18% in 2022. The stock markets are subject to an average annual growth rate of +21.2% in 2021 and +10.5% in 2022.

The downside scenario (weighting: 15%; previous year: 10%) assumes a development of economic conditions that is expected to be unfavourable as compared to that of the central scenario. This scenario is based on the assumption that the economic slump caused by the COVID-19 pandemic will be comparatively more severe and that economic recovery will take longer before it returns to the long-term trends seen before the pandemic. Among other things, this scenario sees the economic recovery being delayed by further COVID-19 outbreaks, restrictions lasting longer and being more restrictive as compared to the central scenario, and global trade conflicts widening. Here, we assume as at the reporting date an average annual growth rate of gross domestic product of +1.2% in 2021 and +1.1% in 2022. The unemployment rate is expected to average 6.61% in 2021 and 6.67% in

2022. The stock markets are subject to an average annual growth rate of –21.3% in 2021 and –20.4% in 2022.

Meanwhile, the severe downside scenario (weighting: 10%; previous year: not included), which was developed due to the COVID-19 pandemic, assumes a significantly later recovery of the economy and allows for a more extreme manifestation of potential risks to further economic development. This scenario is based on the assumption that the economic slump, especially due to the COVID-19 pandemic, will lead to a very severe, long-term global recession and that an economic recovery will take many years. Here, we assume an average annual growth rate of gross domestic product of – 3.5% in 2021 and +2.4% in 2022. The unemployment rate is expected to average 8.23% in 2021 and 8.87% in 2022. The stock markets are subject to an average annual growth rate of – 39.5% in 2021 and –11.4% in 2022.

The weighting of the individual scenarios is expert-based. Based on this weighting, this results in net loan impairment provision for Levels 1 and 2 of € 46.1 million.

Management has looked at possible other weightings of the scenarios used in order to better assess the impact on the level of net loan impairment provisions. A 100% weighting of the respective scenarios would result in the following net loan impairment provision requirements, whereby the credit exposures of Level 3 were disregarded for this sensitivity analysis:

- Central scenario: € 36.7 million;
- Upside scenario: € 32.8 million;
- Downside scenario: € 49.2 million;
- Severe downside scenario: € 115.5 million.

The potential net loan impairment provision requirement indicated here is not to be interpreted as a maximum or minimum net loan impairment provision requirement. Rather, this information is intended to help assess the possible effects of changes in the general conditions on net loan impairment provisions.

The determination of expected loan losses is, by its nature, a sub-area of accounting that is subject to significant estimation uncertainty and discretionary decisions. In particular against the backdrop of the COVID-19 pandemic, the degree of estimation uncertainty in the assessment of net loan impairment provisions, as well as in the exercise of discretionary decisions in this regard, has increased significantly compared to the same period of the previous year. This is mainly due to the fact that the models developed for measuring net loan impairment provisions on the basis of expected loan losses were not able to account for the current effects of a global pandemic, largely unknown up to then, in the absence of empirical values in this regard. Equally new are the current measures undertaken to support the economy by policymakers and central banks.

When measuring the net loan impairment provisions as at 31 December 2020, we made a post-model adjustment to the amount of the net loan impairment provisions. We make such adjustments if new circumstances or changed framework conditions occur or are anticipated that could no longer be adequately taken into account within the framework of the model-based quantification of counterparty risk, or if situations occur that cannot be adequately covered by the existing credit risk models, for example because no sufficient empirical values exist yet based on comparable situations. The use of downstream adjustments is carried out within the framework of existing intra-group rules and is reduced or made obsolete where possible through the further development and recalibration of the credit risk models.

The current COVID-19 pandemic and its impact make for a situation where both the lack of observable past-related data for comparable situations and the erratic evolution of the pandemic may require downstream adjustments. After quantifying the counterparty risk as at 31 December 2020 based on existing credit risk models, it was determined in connection with the quality assurance measures that the latest political restrictions to contain the pandemic (lockdown) and their economic effects are not sufficiently taken into account in the scenarios underlying the net loan impairment provisions. The subsequent consideration of these circumstances was based on expert estimates and scenario calculations. These primarily affect the credit exposures for corporate customers when determining the net loan impairment provisions for exposures in Levels 1 and 2. The effects on exposures to credit institutions and financing institutions, as well as to public budgets, are comparatively low. Overall, compared to the original quantification of the net loan impairment provisions, there is an increase in the net loan impairment provision requirement of €9.2 million. Of this, credit exposures to corporate clients account for €6.7 million (Level 1: €2.7 million; Level 2: €4.0 million), to credit institutions and financing institutions € 1.8 million (Level 1: €1.5 million; Level 2: €0.3 million) and to public budgets €0.7 million (Level 1: €0.7 million; Level 2: €0.0 million).

Significant discretionary decisions were required in connection with the measurement of net loan impairment provisions. These essentially consist of the following:

- the selection and weighting of scenarios for future economic development against the backdrop of the currently rapidly changing economic conditions and the support measures granted by policymakers and central banks to an as yet unknown extent, whereby in particular the severity of the impact of the pandemic on the economy, the duration of the economic burden and the manner of economic recovery constitute significant discretionary decisions;
- the assessment of the economic impact of the scenarios on the measurement of net loan impairment provisions based on expected loan losses, insofar as no observable historical data can be used to objectify the credit risk models used (because the severity and development of the change in economic conditions in the current pandemic are largely unknown to date, for example) and therefore the modelling of the relationship between the development of the economic parameters and the net loan impairment provisions can lead to an overestimation or underestimation of the expected loan losses;
- the identification of credit exposures for which a significant increase in credit risk and, where applicable, a default of the credit exposure has since occurred, especially in cases where the short-term solvency of the borrower is secured by agreed deferment of payment or other support measures, which may, however, conceal existing structural problems of the borrower.

Not least because of the increased estimation uncertainties and significant discretionary decisions described above, it should be noted that a significant additional net loan impairment provision requirement is to be expected in the event of a significant deterioration in the forecasts for future economic development.

Net loan impairment provision

in €m	Gross book values				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1.1.2020	**11,996.2**	**695.6**	**215.2**	**12,907.0**	**1.9**	**4.9**	**46.7**	**53.5**
(Net) transfer between levels	–1,523.4	1,467.2	56.2	0.0	–0.2	–1.2	1.4	0.0
Portfolio changes and changes related to credit quality	–2,614.8	–158.3	78.3	–2,694.8	3.5	19.7	51.2	74.4
Utilisation	0.0	0.0	–22.9	–22.9	0.0	0.0	–22.9	–22.9
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Situation as at 31.12.2020	**7,858.0**	**2,004.5**	**326.8**	**10,189.3**	**5.2**	**23.4**	**76.4**	**105.0**

in €m	Gross book values				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1.1.2019	**11,467.9**	**571.6**	**201.7**	**12,241.2**	**1.1**	**1.9**	**27.7**	**30.7**
(Net) transfer between levels	–218.1	206.0	12.1	-0.0	–0.1	0.1	0.0	0.0
Portfolio changes and changes related to credit quality	746.4	–82.0	18.4	682.8	0.9	2.9	36.0	39.8
Utilisation	0.0	0.0	–17.0	–17.0	0.0	0.0	–17.0	–17.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Situation as at 31.12.2019	**11,996.2**	**695.6**	**215.2**	**12,907.0**	**1.9**	**4.9**	**46.7**	**53.5**

Net loan impairment provision for financial assets

in €m	Fair value				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1.1.2020	**3,448.2**	**37.5**	**0.0**	**3,485.7**	**0.4**	**0.7**	**0.0**	**1.1**
(Net) transfer between levels	–30.1	30.1	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	555.7	–15.7	0.0	540.0	4.2	0.4	0.0	4.6
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Situation as at 31.12.2020	**3,973.8**	**51.9**	**0.0**	**4,025.7**	**4.6**	**1.1**	**0.0**	**5.7**

in €m	Fair value				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1.1.2019	**3,480.7**	**27.7**	**0.0**	**3,508.4**	**0.4**	**0.5**	**0.0**	**0.9**
(Net) transfer between levels	−21.1	21.1	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	−11.4	−11.3	0.0	−22.7	0.0	0.2	0.0	0.2
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Situation as at 31.12.2019	**3,448.2**	**37.5**	**0.0**	**3,485.7**	**0.4**	**0.7**	**0.0**	**1.1**

Provisions for off-balance sheet commitments in the lending business

Provisions for off-balance sheet commitments in the lending business developed as follows:

in €m	Nominal amount				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1.1.2020	**12,183.6**	**961.4**	**12.7**	**13,157.7**	**0.8**	**1.6**	**8.9**	**11.3**
(Net) transfer between levels	−3,230.2	3,106.9	123.3	0.0	−0.2	0.2	0.0	0.0
Portfolio changes and changes related to credit quality	1,466.1	−392.1	47.5	1,121.5	1.9	7.5	−6.5	2.9
Utilisation	0.0	0.0	−1.1	−1.1	0.0	0.0	−1.1	−1.1
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Situation as at 31.12.2020	**10,419.5**	**3,676.2**	**182.4**	**14,278.1**	**2.5**	**9.3**	**1.3**	**13.1**

in €m	Nominal amount				Net loan impairment provision			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		12-month ECL	Lifetime ECL	Lifetime ECL	
As at 1.1.2019	**12,747.4**	**784.6**	**38.1**	**13,570.1**	**0.6**	**0.8**	**4.5**	**5.9**
(Net) transfer between levels	−510.0	523.1	−13.1	0.0	0.0	0.0	0.0	0.0
Portfolio changes and changes related to credit quality	−53.8	−346.3	−12.3	−412.4	0.2	0.8	4.4	5.4
Model changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Situation as at 31.12.2019	**12,183.6**	**961.4**	**12.7**	**13,157.7**	**0.8**	**1.6**	**8.9**	**11.3**

We report further on the emergence and management of counterparty credit risk within the Risk Report as part of the audited consolidated financial statements.

Under direct write-downs, we show an expense from the write-off of a receivable from a contract with a customer (IFRS 15) in the amount of € 2.0 million.

39 Taxation

in €m	31.12.2020	31.12.2019
Current taxation	67.3	34.8
Deferred taxation	0.0	0.1
Total	**67.3**	**34.9**

Current taxation includes provisions for income taxes that are likely to be paid on the basis of the tax accounts of the fully consolidated Group companies, taking into account additions and reductions in respect of corporation and trade tax. In addition, 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 recoverable is offset against deferred taxation.

Taxation is assigned to short-term obligations.

40 Other Liabilities

in €m	31.12.2020	31.12.2019
Lease liabilities	101.1	49.7
Liabilities from other taxes	22.6	22.9
Deferred income	29.7	25.9
Other liabilities	202.1	167.9
Total	**335.5**	**266.4**

Other liabilities include predominantly trade payables and liabilities vis-à-vis employees.

Liabilities from other taxes comprise turnover tax liabilities as well as capital gains tax from our business with customers. Other liabilities are mainly assigned to short-term obligations.

41 Subordinated Capital

in €m	31.12.2020	31.12.2019
Subordinated liabilities (bonds, promissory note loans)	435.0	455.0
Participatory capital	89.0	89.0
Accrued interest on		
subordinated liabilities	2.5	2.9
Participatory capital	4.4	4.4
Total	**530.9**	**551.3**

In order to secure the flexibility of the Group further with regard to refinancing and strengthening the capital, the Annual General Meeting (virtual Annual General Meeting) of HSBC Trinkaus & Burkhardt AG on 9 June 2020 agreed to grant authorisation to the Management Board to issue profit-participation certificates, bonds and other hybrid instruments without option or conversion rights, or option or conversion obligations, in such a manner that it includes the authorisation to exclude subscription rights.

The authorisation is valid until 31 May 2025.

When profit-participation certificates, bonds and other hybrid instruments are issued without any option or conversion rights, or option or conversion obligations, the Management Board may, with the approval of the Supervisory Board, partly or wholly exclude the statutory shareholder subscription right if, after mandatory examination, the Management Board concludes that the issue price is not significantly below the theoretical market value ascertained in accordance with recognised and in particular mathematical valuation methods. Subject to approval by the Supervisory Board, the Management Board may also exclude fractional amounts (resulting from the subscription ratio) from shareholders' subscription rights and, where this is necessary, grant subscription rights to the holders of option rights or the holders of convertible profit-sharing certificates, convertible bonds and other hybrid instruments with conversion rights or obligations that would entitle such holders to the same extent as they would have been entitled on exercising their conversion or option rights or obligations. The Management Board will carefully examine whether the exclusion of the shareholders' subscription rights is in the best interest of the Company and thus also in the best interest of its shareholders. The Supervisory Board will only grant the necessary approval if it concludes that these requirements have been met. Provided the subscription right is not excluded, the profit-participation certificates, bonds or other hybrid instruments may also be subscribed by the Management Board of specific banks, subject to the obligations to offer them to the shareholders (indirect subscription right).

Subject to approval by the Supervisory Board, the Management Board is authorised to determine any specifications with regard to the issue and its features, in particular the volume, time, interest rate, issue price and term.

Further details and provisions, as well as the full text of the aforementioned resolution result from the administration's proposals for resolution on agenda item no. 7 and the corresponding report by the Management Board to the Annual General Meeting of the convening of the company's Annual General Meeting published in the Federal Gazette (Bundesanzeiger) on 11 May 2020.

In the event of liquidation, insolvency or other proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against the Bank 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 the Bank if there is a change in the tax framework, subject to two years' notice of termination.

An amount of €282.2 million (previous year: €316.0 million) of subordinated capital is used to calculate liable capital in accordance with the CRR.

For the 2020 financial year, subordinated liabilities accounted for an interest expense of €10.2 million (previous year: €11.5 million) and participatory capital accounted for an interest expense of €4.4 million (previous year: €4.4 million).

Interest and repayment of subordinated liabilities

in €m	Nominal amount in €m 31.12.2020	Nominal amount in €m 31.12.2019
4% to 5%	55.0	75.0
Over 5% up to 6%	30.0	30.0
Fixed rates	85.0	105.0
Variable rates	350.0	350.0
Total	**435.0**	**455.0**

in €m	Nominal amount in €m 31.12.2020	Nominal amount in €m 31.12.2019
Up to 1 year	40.0	20.0
Over 1 year up to 5 years	35.0	60.0
Over 5 years	360.0	375.0
Total	**435.0**	**455.0**

42 Shareholders' Equity

The subscribed capital of HSBC Trinkaus & Burkhardt AG as at 31 December 2020 amounts to €91.4 million (previous year: €91.4 million); as in the previous year, it is divided into 34,088,053 no-par value shares. For the 2020 financial year, a total dividend of €136.4 million (previous year: €0.0 million) is to be paid.

The Management Board is authorised to increase the company's share capital by up to €45,711,948.47 on or before 31 May 2025, 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 €45,711,948.47 by means of issuing 17,044,026 new no-par value bearer shares (conditional capital). The conditional capital increase can only be executed to the extent that the holders of the profit-participation certificates, bonds or other hybrid instruments with option or conversion rights that may only be issued from 9 June 2020 up to 31 May 2025 due to the authorisation of the Management Board through a resolution of the Annual General Meeting exercise their option or conversion rights, or the holders of the profit-participation certificates, bonds or other hybrid instruments with option or conversion obligations to be issued by the company by 31 May 2025 on the basis of the forthcoming aforementioned authorisation fulfil their option or conversion obligation. No use has been made of this authorisation to date.

Premiums from the issue of shares and options on treasury shares are shown in the capital reserve.

Profits from previous years that are not distributed are generally reported in retained earnings and in consolidated profit available for distribution.

HSBC Trinkaus & Burkhardt AG raised Additional Tier 1 capital (AT1) in December 2016 in the form of a deeply subordinated bearer bond with unlimited maturity for the total amount of €235.0 million. The bond cannot be called by the issuer for the first five years, and it features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.65%. A payment of €13.3 million will thus be due for the 2020 financial year (previous year: €13.3 million).

In January 2019, HSBC Trinkaus & Burkhardt AG raised further additional Tier 1 capital (AT1) in the form of a deeply subordinated bearer bond with unlimited maturity with a total notional amount of €200.0 million. The bond cannot be called by the issuer until 1 January 2025, and it features a fixed coupon that is adjusted every five years. The initial rate of interest is 5.04%. Interest payments for the 2020 financial year stood at €10.1 million (previous year: €9.3 million).

HSBC Bank plc, London, which held 99.3% of HSBC Trinkaus & Burkhardt AG's share capital at the end of the financial year and 100.0% at the time the consolidated financial statements were prepared, fully subscribed and acquired both securities in the course of a private placement. In accordance with IFRS, it constitutes shareholders' equity in both cases.

The changes in value (including net loan impairment provision) vis-à-vis the amortised costs of the debt instruments reported in the item financial assets, after taking deferred taxes into account, are recognised in the valuation reserve for debt instruments recognised at fair value through other comprehensive income.

The changes in value vis-à-vis the acquisition costs of the equity instruments reported in the item financial assets, after taking deferred taxes into account, are recognised in the valuation reserve for debt instruments recognised at fair value through other comprehensive income.

The difference between the value forecast at the beginning of the year as at the balance sheet date and the actual value of the obligation or the plan assets calculated on the balance sheet date, after taking deferred taxes into account, are shown in the valuation reserve for the remeasurement of the net pension obligation.

The valuation reserve from currency conversion results from the consolidation of the real estate fund, the functional currency of which is the AUD.

Our capital management, which is geared towards the regulatory requirements, is also complemented by analysis of the economic capital requirement (Internal Capital Adequacy Assessment Process, ICAAP). ICAAP is based on the second pillar of the Basel capital requirements framework and fulfils the Minimum Requirements for Risk Management (MaRisk) stipulated by the Federal Financial Supervisory Authority (BaFin).

According to MaRisk, banks have to set up strategies and processes which ensure that enough internal capital is available to cover all main risks and that their risk-bearing capacity is permanently guaranteed as a result. ICAAP constitutes an integral part of risk management for us, which is embedded into the risk management process and is constantly being developed further.

The quarterly analysis and continuous monitoring of the risk-bearing capacity are based on an income statement/balance sheet approach and also cover types of risk that are not included in the regulatory requirements for the capital adequacy of banks (e.g. liquidity risk). As a result of the 2020 risk inventory, pension risk has no longer been quantified in the ICAAP since Q3 2020.

The calculation of the economic capital requirement and derivation of the aggregate risk cover is carried out for two different scenarios – going concern and liquidation scenario – which are completed by associated stress assessments. Within the scope of the stress assessment throughout the bank in the going concern scenario, the Bank takes an unusual but conceivable negative development of the global economy (for example, global economic collapse with a sharp decline in global trade or deterioration of the financial position of the public sector) and thus simulates the impact on specific quantifiable risks. Separate stress scenarios are defined for quantifiable risks that are not covered by the scenario and the impact analysed. In addition to these regular stress tests, the Bank conducts an inverted stress test once a year. This type of stress testing is related to the identification of results that could seriously threaten the Bank's own existence – in other words, that could potentially erode the aggregate risk cover of the going concern and/or liquidation scenario. Because of the current political situation, we have identified growing protectionism of countries outside the EU as a possible inverse stress scenario (going concern), which could put export-oriented companies in particular under pressure and devalue the Bank's loan portfolio. Given that a stress test with a focus on exports outside of the EU had posed a threat to the risk-bearing capacity in the liquidity scenario only under very unrealistic assumptions, a counter stress test was examined instead for the liquidity scenario. This crisis scenario concerned in particular companies that are heavily dependent on sales within the EU as well as European banks and countries. Besides a downgrade of the creditworthiness, increased correlations and loss ratios were also modelled. The impact analysis of the inverse scenarios also takes compliance with the minimum capital ratios under Pillar I into account.

The theoretical methods and models for quantifying the economic capital requirement are at varying stages of development in the different types of risk.

In line with a conservative approach, diversification effects are not taken into consideration at the Bank at present.

We continue to adjust the calculation of the economic capital requirement to meet the growing challenges we face. The risk-bearing capacity is comprehensively analysed on a quarterly basis and is continuously updated. The underlying methods are discussed in detail in the Capital Working Group. The minutes of the Capital Working Group are forwarded to the ALCO and dealt with there. ICAAP is also discussed regularly in the Risk Committee of the Supervisory Board.

The Group's risk-bearing capacity is unchanged and its capitalisation adequate. As in the previous year, the minimum capitalisation requirements are met.

Valuation reserve for debt instruments recognised at fair value through other comprehensive income
The change in the valuation reserve for debt instruments recognised at fair value through other comprehensive income is as follows:

in €m	2020	2019
Net valuation reserve as at 01.01	**47.8**	**25.2**
Disposals/additions (gross)	4.9	17.3
Market fluctuations (gross)	12.3	13.2
Net loan impairment provision (gross)	4.6	0.2
Deferred taxes	−5.5	−8.1
Net valuation reserve as at 31.12	**64.1**	**47.8**

Valuation reserve for equity instruments recognised at fair value through other comprehensive income
The change in the valuation reserve for equity instruments recognised at fair value through other comprehensive income is as follows:

in €m	2020	2019
Net valuation reserve as at 01.01	**6.6**	**6.6**
Disposals/additions (gross)	−3.3	0.0
Market fluctuations (gross)	1.3	0.0
Deferred taxes	0.0	0.0
Net valuation reserve as at 31.12	**4.6**	**6.6**

The HSBC Trinkaus & Burkhardt Group meets its disclosure obligations pursuant to Pillar 3 through the disclosure made at Group level by HSBC Holdings plc, London (Article 6 (3) CRR). We refer in this respect to HSBC Group's publications under the heading Investor Relations on its website (www.hsbc.com).

Notes to the Consolidated Income Statement

43 Net Interest Income

in €m	2020	2019
Interest income	**316.7**	**336.1**
Interest income from financial assets measured at amortised cost	**205.8**	**247.9**
Interest income from the lending business and money market transactions	205.8	247.9
Interest income from the securities business	0.0	0.0
Interest income from financial instruments recognised as liabilities	**83.1**	**42.5**
Interest income from financial assets recognised at fair value through other comprehensive income	**22.8**	**29.3**
Interest income from the lending business and money market transactions	4.0	4.1
Interest income from the securities business	18.8	25.2
Other interest income	**1.9**	**11.7**
Interest income from other financial assets mandatorily recognised at fair value through profit or loss	**3.1**	**4.7**
Interest income from the lending business and money market transactions	0.0	0.0
Interest income from the securities business	3.1	4.7
Interest expense	**90.2**	**108.0**
Interest expense from financial liabilities measured at amortised cost	**36.4**	**71.5**
Interest expense from the deposit-taking business	21.8	55.6
Interest expense from the securities business (subordinated capital)	14.6	15.9
Interest expense from financial instruments carried as assets	**48.8**	**31.0**
Interest expense from hedge accounting	**2.6**	**0.7**
Interest expense from lease liabilities	**0.2**	**0.4**
Other interest expense	**2.2**	**4.4**
Net interest income	**226.5**	**228.1**

Net interest income came to €226.5 million (previous year: €228.1 million) and therefore decreased slightly by €1.6 million, or 0.7 %, in total.

In the customer lending business, we were able to improve net interest income from a product perspective compared to the previous year despite lower average volumes due to higher margins.

Net interest income from the deposit-taking business improved slightly over the previous year from a product perspective. We were able to pass on an additional proportion of the existing charges from the negative interest environment in the Eurozone to customers in all segments.

Net interest income from our financial assets has fallen significantly once again. In the 2020 market environment, it was once again only possible to replace bullet loans with those with significantly lower coupons while maintaining our strict rules on the asset quality and maintaining a comparable risk profile.

Net interest income from the management of the Bank's interest rate and currency risk, which we report under other interest income in line with internal management, fell significantly compared to the previous year.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of €4.4 million (previous year: €3.1 million). Interest expense from financial instruments carried as assets included payments for negative interest rates for the balance on the Bundesbank account in the amount of €47.4 million (previous year: €29.8 million).

44 Net Loan Impairment Provision in the Lending and Securities Business

in €m	2020	2019
Additions	97.3	52.6
Reversals	15.2	7.5
Direct write-offs	2.0	0.0
Recoveries on loans and advances previously written off	0.4	0.0
Total	**83.7**	**45.1**

Expenses for net loan impairment provision in the lending and securities business amounted to €83.7 million (previous year: €45.1 million). The impairments on defaulted exposures incurred expenses from the creation of and additions to net loan impairment provision of €61.4 million and income from the reversal of net loan impairment of €15.2 million. The other lending and securities exposures resulted in a net addition to net loan impairment provision of €35.9 million through profit or loss.

45 Net Fee Income

in €m	2020	2019
Securities business	233.2	232.4
Foreign exchange trades	71.2	63.0
Asset management	70.9	76.9
Capital financing	61.8	27.5
Lending	35.8	25.3
Domestic/international payments	21.6	21.7
Other services	–0.5	6.3
Total	**494.0**	**453.1**

Net fee income rose by €40.9 million, or 9.0 %, to €494.0 million (previous year: €453.1 million).

At €233.2 million, net fee income from the securities business was up by €0.8 million from the previous year's figure of €232.4 million. In particular in the business with equities and equity derivatives, higher fee income was achieved as a result of the increased transaction volume compared to the previous year, although this was also accompanied by higher fee expenses. Compared to the previous year, income from the referral of customer business to the HSBC Group and the result from the business with alternative investments declined. In the fee-based business with exchange rates, we recorded €71.2 million (previous year: €63.9 million), an increase of €8.2 million. This is due to the further increase in the volume traded.

Net fee income from asset management declined by €6.0 million to €70.9 million (previous year: €76.9 million) in what continued to be a highly competitive environment. The previous year's result benefited from income from the outperformance of assets under our management, which was not possible to the same extent in 2020.

In capital financing, we were unable to match the previous years' positive results from equity- and debt-based corporate financing transactions. Net fee income increased significantly by €34.3 million to €61.8 million (previous year: €27.5 million). The increase was mainly due to a major acquisition transaction that we supported.

Net fee income in the lending business increased significantly by €10.5 million to €35.8 million (previous year: €25.3 million). The increase in net fee income from the lending business is related to the success in the business with corporate finance transactions.

The volume of domestic/international payments and documentary business remained practically unchanged compared to the previous year at €21.6 million (previous year: €21.7 million).

Provision income consists of the following:

in €m		PB & AM	CMB	GB & M	CC/ consolidation	Total
	31.12.2020	11.6	1.5	445.2	0.3	458.6
Income from securities business*	31.12.2019	12.3	5.8	394.4	0.4	412.9
	31.12.2020	82.0	2.9	-3.6	-0.2	81.1
Income from asset management*	31.12.2019	82.9	2.2	0.7	0.1	85.9
	31.12.2020	6.0	16.8	52.4	0.1	75.3
Income from foreign exchange trades	31.12.2019	6.8	15.6	45.6	0.2	68.2
	31.12.2020	2.2	32.8	6.3	0.0	41.3
Income from lending business*	31.12.2019	3.4	25.9	3.3	-0.1	32.5
	31.12.2020	0.0	11.9	52.6	-0.1	64.4
Income from capital financing	31.12.2019	0.0	4.6	24.0	-0.4	28.2
	31.12.2020	0.5	16.8	8.3	-0.1	25.5
Income from domestic/international payments	31.12.2019	0.6	16.2	8.2	0.0	25.0
	31.12.2020	0.0	1.1	1.7	0.2	3.0
Income from other services	31.12.2019	1.6	0.6	4.9	0.4	7.5
	31.12.2020	102.3	83.8	562.9	0.2	749.2
Total	31.12.2019	107.6	70.9	481.1	0.6	660.2

* Comparative figures adjusted; cf. disclosure in the notes on "Customer Groups".

46 Net Trading Income

in €m	2020	2019
Equities and equity-/index-linked derivatives	128.6	44.8
Bonds, money market transactions and interest rate derivatives	27.1	22.3
Foreign exchange	1.6	3.2
Hedge result	2.5	0.2
Derivatives held in the banking book	0.0	–0.1
Total	**159.8**	**70.4**

Net trading income increased significantly by €89.4 million to €159.8 million (previous year: €70.4 million).

Income generated from trading with equities and equity derivatives increased significantly by €83.8 million year on year to €128.6 million (previous year: €44.8 million). The high volatility on the stock markets in 2020 led to increased interest and thus significantly higher business volumes in investment certificates and trading products.

Net trading income from bonds, money market transactions and interest rate derivatives amounted to €27.1 million, which marks a year-on-year increase of €4.8 million against the backdrop of high market volatility (previous year: €22.3 million).

47 Net Profit from Other Financial Assets Mandatorily Measured at Fair Value Through Profit or Loss

in €m	2020	2019
Bonds and other fixed-income securities	–2.3	4.2
Hybrid financial instruments	–1.1	3.3
Investment certificates	–0.6	1.3
Equities and other non-fixed-income securities	0.0	0.6
Investments	13.9	2.5
Total	**9.9**	**11.9**

Income generated from foreign exchange trading declined again in 2020 by €1.6 million to €1.6 million. The switching of foreign exchange trading to automated platforms continues to impact negatively on the margins.

Net profit from other financial assets mandatorily recognised at fair value through profit or loss stood at €9.9 million following €11.9 million in the previous year.

48 Gains and Losses from the Disposal of Assets Measured at Amortised Cost

In the year under review, losses from the disposal of financial assets measured at amortised cost amounted to €46,000 (previous year: €0.9 million).

49 Administrative Expenses

in €m	2020	2019
Staff expenses	378.6	387.4
Wages and salaries	315.9	319.4
Social security costs	39.8	39.9
Expenses for retirement pensions and other employee benefits	22.9	28.1
Other administrative expenses	216.8	192.7
Depreciation and amortisation	51.0	38.8
Total	**646.4**	**618.9**

Depreciation and amortisation include the following amounts:

in €m	2020	2019
Operating and office equipment	15.9	15.8
Land and buildings	1.7	1.7
Intangible assets	20.4	10.0
Rights of use	13.0	11.3
Total	**51.0**	**38.8**

We reported an increase of €27.5 million, or 4.4%, in administrative expenses to €646.4 million (previous year: €618.9 million).

At €378.6 million, personnel expenses improved by €8.8 million year on year (€387.4 million). Despite the high expenses in connection with our efficiency programme, the decline in the number of employees to an average of 2,995 in the financial year was noticeable (previous year period: 3,097), as was a decrease in variable remuneration.

Other administrative expenses rose from €192.7 million to €216.8 million despite savings achieved in various areas of the Group. The increase is due in particular to the transfer of further subprocesses to HSBC service units in line with the strategy and the associated settlement of services within the HSBC Group. Furthermore, the expenses for the bank levy increased again compared to the previous year.

Depreciation and amortisation on property, plant and equipment and intangible assets stood at €51.0 million and were €12.2 million higher year on year. The significant increase is mainly due to unscheduled amortisation of intangible assets in connection with our "Germany Transformation" programme announced in autumn 2020 and the initiated change to the IT infrastructure of the HSBC Group that this entailed.

50 Income from Financial Assets

Gains and losses from debt instruments recognised at fair value through other comprehensive income are reported in net income from financial assets. Income from financial assets stood at €18.8 million (previous year: €10.3 million) from the disposal of bonds under the "hold and sell" business model.

in €m	2020	2019
Bonds and other fixed-income securities	18.8	10.3
Promissory note loans	0.0	0.0
Investments	0.0	0.0
Total	**18.8**	**10.3**

51 Other Net Income

in €m	2020	2019
Other operating income	19.3	43.0
Other operating expenses	11.3	6.9
Other Net Operating Income	**8.0**	**36.1**
Other income	0.9	0.3
Other expenses	0.8	0.5
Other net income	**0.1**	**–0.2**
Net other income	**8.1**	**35.9**

Other net operating income stood at €8.0 million (previous year: €36.1 million). The significant decrease is mainly due to a one-off income from the sale of a property included in the previous year.

Other operating income stood at €0.1 million (previous year: €–0.2 million).

52 Tax Expenses

in €m	2020	2019
Current taxes	80.0	56.7
of which off-period	0.6	2.3
Deferred taxes from change in limited valuation differences	–22.5	–9.4
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**57.5**	**47.3**

Income tax expense in the financial year amounted to €57.5 million (previous year: €47.3 million) and fell slightly compared to the previous year in line with the decline in earnings. This equates to a tax rate of 30.7% after 32.6% in the previous year.

The following table shows the relationship between income taxes derived from net profit for the year before taxes and the actual income tax reported:

in €m	2020	2019
Pre-tax profit	187.0	144.8
Tax rate (%)	31.4	31.4
Tax expenses derived from pre-tax profit	58.7	45.5
Tax rate differential on income proportions subject to taxation outside of Germany	0.0	–0.4
Effect from unused losses carried forward	0.2	–0.1
Taxes for previous years	0.2	2.9
Corporation tax modification	5.0	4.9
Trade tax modification	1.0	0.7
Tax-exempt income from investments	–1.2	–0.5
Temporary differences and losses for which no deferred taxes were recognised	–8.0	–7.9
Other	1.6	2.2
Reported taxation	**57.5**	**47.3**

53 Leases

The income statement contains the following amounts in connection with leases:

in €m	2020	2019
Income from the subletting of right-of-use assets	0.5	0.5
Write-down of rights of use	13.0	11.3
Interest expense for lease liabilities	0.2	0.4
Expenses for short-term leases	1.2	1.0
Expenses for leases involving low-value assets that are not contained in the aforementioned short-term leases	0.0	0.0
Expenses for variable lease payments	0.0	0.0

Income from the subletting of right-of-use assets is disclosed under other operating income. Interest expense for lease liabilities is disclosed under net interest income. All further expenses in connection with leases are disclosed under administrative expenses.

Total payments for lease liabilities amounted to €25.3 million (previous year: €15.8 million).

54 Income Statement by Measurement Category

The following overview represents the expenses and income from financial instruments broken down by measurement category pursuant to IFRS 9. Net trading income, net profit from other financial assets mandatorily recognised at fair value through profit or loss, gains and losses from the disposal of assets measured at amortised cost, net income from financial assets and net other income are net earnings indicators.

Measurement categories

31.12.2020 in €m	Measurement at amortised cost		Measurement at fair value through profit or loss*	Measurement at fair value through other comprehensive income		Total
	Cash reserve/ loans and advances to banks/ loans and advances to customers	Other liabilities/subordinated capital		(with recycling)	(without recycling)	
Net interest income						
Interest income	205.8	83.1	3.1	21.7	1.1	314.8
Interest expense	–48.8	–36.4	–2.6	0.0	0.0	–87.8
Net fee income						
Fee income	41.3	0.0	16.5	0.0	0.0	57.8
Fee and commission expenses	–5.5	0.0	–20.8	0.0	0.0	–26.3
Net trading income	0.0	0.0	170.5	–10.7	0.0	159.8
Net profit from other financial assets mandatorily measured at fair value through profit or loss	0.0	0.0	9.9	0.0	0.0	9.9
Gains and losses from the disposal of assets measured at amortised cost	0.0	0.0	0.0	0.0	0.0	0.0
Income from financial assets	0.0	0.0	0.0	18.8	0.0	18.8
Net other income	0.0	0.0	0.0	0.0	0.0	0.0
Net loan impairment provision in the lending and securities business**	–76.9	0.0	0.0	–4.6	0.0	–81.5
Total	**115.9**	**46.7**	**176.6**	**25.2**	**1.1**	**365.5**

* Including hedge accounting relationships
** Not including foreign currency effects

Measurement categories

31.12.2019 in €m	Measurement at amortised cost		Measurement at fair value through profit or loss*	Measurement at fair value through other comprehensive income		Total
	Cash reserve/loans and advances to banks/ loans and advances to customers	Other liabilities/subordinated capital		(with recycling)	(without recycling)	
Net interest income						
Interest income	247.9	42.5	4.7	28.0	1.3	324.4
Interest expense	−31.0	−71.5	−0.7	0.0	0.0	−103.2
Net fee income						
Fee income	32.5	0.0	14.2	0.0	0.0	46.7
Fee and commission expenses	−7.2	0.0	−6.6	0.0	0.0	−13.8
Net trading income	0.0	0.0	69.5	0.9	0.0	70.4
Net profit from other financial assets mandatorily measured at fair value through profit or loss	0.0	0.0	11.9	0.0	0.0	11.9
Gains and losses from the disposal of assets measured at amortised cost	−0.9	0.0	0.0	0.0	0.0	−0.9
Income from financial assets	0.0	0.0	0.0	10.3	0.0	10.3
Net other income	0.0	0.0	0.0	0.0	0.0	0.0
Net loan impairment provision in the lending and securities business**	−39.3	0.0	0.0	−0.2	0.0	−39.5
Total	**202.0**	**−29.0**	**93.0**	**39.0**	**1.3**	**306.3**

* Including hedge accounting relationships
** Not including foreign currency effects

55 Earnings per Share

	2020	2019
Adjusted net income in €m	114.0	82.1
Average number of shares in circulation in million	34.1	34.1
Earnings per share in €	**3.34**	**2.41**
Undiluted earnings per share in €	**3.34**	**2.41**

In adjusted net income, interest from Additional Tier 1 capital was deducted from net income in order to calculate the earnings per share attributable to the ordinary shareholders.

The Management Board proposes to the Annual General Meeting the distribution of a dividend of €4.00 per share (previous year: €0.00 per share).

Other Notes

56 Notes to the Cash Flow Statement

IAS 7 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 summary item "Other adjustments (net)" essentially comprises net changes to deferred taxes and the change in taxation recoverable, as well as tax expenses paid and interest and dividends received minus interest paid.

Cash and cash equivalents
As in the previous year, the cash and cash equivalents of €10,454.4 million (previous year: €5,731.5 million) correspond to the balance sheet item "cash reserve", which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

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

The Group's net profit after tax of €129.5 million (previous year: €97.5 million) is the starting point for the cash flow statement. The gross cash flow of €131.4 million reported as a subtotal (previous year: €12.1 million) shows the operating revenue surplus before any changes in working capital. The cash flows from operating activities also take into account the changes in funds employed in operations.

Cash flow from investing activities
Spending on the acquisition of property, plant and equipment totalled €46.5 million in the 2020 financial year (previous year: €46.2 million). The sale of property, plant and equipment realised €2.3 million (previous year: €1.5 million) for the Group. In the financial year under report, the sale and purchase of equity-linked financial investment instruments resulted in net payments received of €2.0 million (previous year: net payments received €0.3 million).

Cash flow from financing activities
Cash flow from financing activities includes the dividend of €0.0 million for the 2019 financial year paid by HSBC Trinkaus & Burkhardt AG in the year under report (previous year: €85.2 million). A distribution of €22.5 million was made to the HSBC Group to Additional Tier 1 (AT1) capital (previous year: €13.3 million).

The following tables show the portfolio-related development of Group financing.

in €m	Consolidated shareholders' equity	Subordinated capital
As at 1.1.2020	**2,488.6**	**551.3**
Cash flow from financing activities	–22.5	–33.7
Non-cash changes	128.4	13.3
Changes in basis of consolidation	0.0	0.0
Exchange rate adjustments	0.0	0.0
Other non-cash changes	128.4	13.3
Situation as at 31.12.2020	**2,594.5**	**530.9**

in €m	Consolidated shareholders' equity	Subordinated capital
As at 1.1.2019	**2,262.7**	**580.5**
Cash flow from financing activities	101.5	–43.6
Non-cash changes	124.4	14.4
Changes in basis of consolidation	0.0	0.0
Exchange rate adjustments	0.0	0.0
Other non-cash changes	124.4	14.4
Situation as at 31.12.2019	**2,488.6**	**551.3**

57 Customer Groups

The segment reporting prepared by HSBC Trinkaus & Burkhardt Group 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 a company. The segment reporting of the HSBC Trinkaus & Burkhardt Group is based on contributions to profits and lines of business accounting (LoB accounting) as key components of the Management Information System (MIS). Both controlling vehicles serve as the Bank's central management and controlling tools, reflecting the organisational structure of the HSBC Trinkaus & Burkhardt Group on a divisional basis.

The Bank is divided into the following segments: Private Banking & Asset Management (PB & AM), Commercial Banking (CMB), Global Banking & Markets (GB & M) and Corporate Centre/Consolidation (CC/Consolidation).

Commercial Banking is responsible for the business with corporate SME customers. Aside from lending and deposit products, we offer a comprehensive domestic and foreign payment transactions service (payments and cash management). We also provide sophisticated specialised services such as interest rate and currency management, as well as the international business in conjunction with HSBC Group.

In addition to the large international corporate customers and institutional customers, Global Banking & Markets also includes the Capital Financing and Markets activities, as well as HSBC Securities Services. Apart from the lending business and investment banking, Capital Financing mainly includes the origination function on the primary market, while Markets comprises the distribution and trading activities for capital market products on the secondary market. HSBC Securities Services comprises custody, clearing and custodian bank services, as well as being responsible for fund administration within the Group.

In addition to pure asset management and advisory services, Private Banking also includes special facilities such as advice on special asset structuring, execution of wills and Family Office services.

Asset Management comprises the development and distribution of fund and advisory concepts for institutional customers, corporate customers and financial intermediaries. Together with other HSBC Group Asset Management units, we offer a strong product range which competently covers all relevant asset classes.

In the Corporate Centre segment, we report the net result from other financial assets mandatorily measured at fair value through profit or loss as well as special effects from impairments or property sales. In addition, reconciliation items, which exist between the aggregate of the three core segment results and the total amount between the respective sub-categories of the income statement, are reported here.

Segment reporting by operating business division for 2020 and 2019 is as follows:

in €m		**PB & AM**	**CMB**	**GB & M**	**CC/Consolidation****	**Total**
Net interest income	2020	7.7	133.3	88.6	–3.1	226.5
	2019*	10.3	133.9	80.8	3.1	228.1
Net fee income	2020	97.9	71.4	324.7	0.0	494.0
	2019*	99.7	53.5	299.9	0.0	453.1
Net trading income	2020	2.5	4.4	146.5	6.4	159.8
	2019*	1.6	3.3	67.8	–2.3	70.4
Other net operating income	2020	–0.6	0.3	6.9	1.4	8.0
	2019	1.8	3.1	12.2	19.0	36.1
Gains and losses from the disposal of financial assets measured at amortised cost	2020	0.0	0.0	0.0	0.0	0.0
	2019	0.0	–0.8	–0.2	0.1	–0.9
Operating revenues	2020	107.5	209.4	566.7	4.7	888.3
	2019*	113.4	193.0	460.5	19.9	786.8
Net loan impairment provision in the lending and securities business	2020	0.6	72.3	10.8	0.0	83.7
	2019	0.1	44.3	0.5	0.2	45.1
Administrative expenses	2020	94.3	128.8	396.1	27.2	646.4
	2019*	99.0	114.7	394.5	10.7	618.9
Operating result	2020	12.6	8.3	159.8	–22.5	158.2
	2019*	14.3	34.0	65.5	9.0	122.8
Net profit from other financial assets mandatorily recognised at fair value through profit or loss	2020	0.0	0.0	0.0	9.9	9.9
	2019	0.0	0.0	0.0	11.9	11.9
Income from financial assets	2020	2.8	5.6	13.5	–3.1	18.8
	2019*	2.0	3.8	9.1	–4.6	10.3
Other net income	2020	0.0	0.0	0.0	0.1	0.1
	2019	0.0	0.0	0.0	–0.2	–0.2
Pre-tax profit	2020	15.4	13.9	173.3	–15.6	187.0
	2019*	16.3	37.8	74.6	16.1	144.8
Income tax	2020	5.3	4.8	59.9	–12.5	57.5
	2019*	5.6	13.1	25.8	2.8	47.3
Net profit	**2020**	**10.1**	**9.1**	**113.4**	**–3.1**	**129.5**
	2019*	**10.7**	**24.7**	**48.8**	**13.3**	**97.5**

* Comparative figures adjusted.
** No material consolidation effects were recorded in the year under report.

Business performance in 2020 was largely shaped by the COVID-19 pandemic and the resulting negative impact on the global economy, but also by the associated business opportunities. The difficult economic situation confronts many companies with real challenges, as reflected in a corresponding rise in net loan impairment provision requirements. At the same time, however, the turbulence on the global capital markets also led to a significant increase in our customers' activities on the capital markets, which had a very positive impact on the Bank's revenues. Nevertheless, the intensity of competition and the pressure this exerts on margins remain high. Negative interest rates in the Eurozone, as well as the significant reduction in US-dollar money market interest rates, continue to put pressure on margins in the deposit-taking business. The improvement in results achieved despite these challenging conditions is evidence of the balance and stability of the Bank's diversified business model.

While the Global Private Banking & Asset Management customer group was able to almost repeat the previous year's result, the higher allocation to net loan impairment provision in the Commercial Banking segment meant that the previous year's result was missed by a clear margin. On the other hand, Global Banking and Market succeeded in doubling the previous year's result. The Corporate Centre segment mainly includes the valuation gains from assets of the Bank measured at fair value through profit or loss and, in the previous year, the proceeds from the sale of a property from a consolidated closed-end real estate fund. In line with the changed presentation in the HSBC Group, the results of money market trading for 2020 and retrospectively for the previous year were removed from the Corporate Centre/Consolidation segment and reallocated to the Bank's Customer Groups. This led to high earnings in the core segments, particularly in net income from financial investments, which resulted from the successful positioning of money market trading during the market turbulence caused by the COVID-19 pandemic in the first quarter of 2020.

The Global Banking and Markets segment benefited from the favourable capital market environment as a result of higher volatility in the markets and increased customer activity, and was able to improve its revenues year on year, particularly in customer-related trading business with equity derivatives. The fee-based business from investment banking and the associated lending transactions as well as from the transaction business with custody clients also developed very successfully. Net interest income also grew, both in the lending business and through the increasing passing on of negative credit interest to our customers in the deposit business. Due to the pleasing revenue development, the significant increase in net loan impairment provision was more than compensated for. By contrast, it was not possible to repeat the previous year's high results from fixed income and alternative investment business.

The Commercial Banking division was able to significantly increase its operating revenues compared to the previous year. This was driven in particular by the fee-based business. However, the revenue increases from fees in investment banking and lending transactions based on these, as well as from foreign exchange and precious metal transactions, were not sufficient to offset the high new allocations to the net loan impairment provision in 2020.

The Global Private Banking & Asset Management segment fell only slightly short of its previous year's results. Revenue growth resulted from the implementation of money market trading, which was very successful in 2020, in the customer groups as well as from alternative investment transactions as a result of the change in revenue distribution from the second half of 2020 in favour of Asset Management in line with the revenue statement in the HSBC Group. This revenue split at the expense of Global Banking & Markets in favour of Global Private Banking & Asset Management was also made retroactively for the second half of 2019 to ensure comparability of the results. Revenue declines were mainly recorded in the lending business and in asset management, which was able to collect an outperformance fee in the previous year. The initial success of the efficiency programme launched in 2019 and continued in 2020 was seen in the decline in administrative expenses.

The increase in administrative expenses in the Bank as a whole and in almost all of the Bank's segments is mainly due to the efficiency programme for the Bank, which was started in 2019 and will be increasingly continued in the second half of 2020.

		PB & AM	CMB	GB & M	CC/ Consolida-tion**	Total	Adjust-ments	As at the balance sheet date
Cost/efficiency ratio in %	2020	85.5	59.9	68.3	0.0	70.5	0.0	70.5
	2019*	85.8	58.3	84.0	0.0	76.5	0.0	76.5
Assets* in €m	2020	530.7	6,314.2	9,259.0	14,964.4	31,068.3	–1,601.3	29,467.0
	2019	578.3	6,797.7	7,860.5	11,966.6	27,203.1	–610.3	26,592.8
Liabilities* in €m	2020	2,647.7	5,966.2	14,442.0	5,480.3	28,536.2	–1,663.7	26,872.5
	2019	2,817.9	4,492.4	12,293.5	5,171.7	24,775.5	–671.3	24,104.2
Risk-weighted assets* in €m	2020	472.4	7,826.5	6,247.5	1,222.2	15,768.6	–377.7	15,390.9
	2019	588.5	8,277.4	6,839.9	1,051.5	16,757.3	–860.1	15,897.2
Attributable shareholders' equity in €m	2020	111.4	1,203.4	964.6	252.7	2,532.1	62.4	2,594.5
	2019	123.0	1,187.1	984.4	171.8	2,466.3	22.3	2,488.6
Employees	2020	438	578	1,875	20	2,911	0	2,911
	2019*	478	581	2,002	22	3,083	0	3,083
Return on equity before taxes in %	2020	13.8	1.2	18.0	0.0	7.7	0.0	7.7
	2019*	13.3	3.2	7.6	0.0	5.9	0.0	5.9

* Comparative figures adjusted.
** No material consolidation effects were recorded in the year under report.

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/efficiency 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. The notable improvement in this key figure for the Bank as a whole, despite higher personnel and operating expenses, is mainly due to revenue growth in the Global Banking and Markets segment. While the Global Private Banking & Asset Management segment was able to slightly improve its cost-efficiency ratio, the cost-income ratio in Commercial Banking deteriorated slightly despite high revenue growth due to the higher percentage increase in administrative expenses.

The capital resources of the business segments are made up of a base amount which is allocated to each segment, plus a premium calculated according to the level of risk items for mandatory inclusion.

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

In line with the Bank's strategy of focusing on qualitative business growth, risk positions were reduced in all core segments of the bank as well as in the Bank as a whole.

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	2020	187.8	–0.8	0.0	187.0
	2019	144.3	0.5	0.0	144.8

Non-current segment assets amount to €220.0 million in the reporting year (previous year: € 223.5 million) and, as in the previous year, is allocated exclusively to the Germany region.

58 Measurement Categories

The following tables provide an overview of the measurement categories in the respective balance sheet item:

Assets as at 31.12.2020 in €m

Measurement categories	Measurement at amortised cost	Measurement at fair value through profit or loss	Measurement at fair value through other comprehensive income		Total
			with recycling	without recycling	
Cash reserve	10,454.4	0.0	0.0	0.0	10,454.4
Loans and advances to banks	1,567.5	0.0	0.0	0.0	1,567.5
Loans and advances to customers	8,516.8	0.0	0.0	0.0	8,516.8
Trading assets	0.0	2,639.0	0.0	0.0	2,639.0
Positive market values from derivative financial instruments	0.0	1,713.3	0.0	0.0	1,713.3
Other financial assets mandatorily recognised at fair value through profit or loss	0.0	84.4	0.0	0.0	84.4
Financial assets	0.0	0.0	4,025.7	24.9	4,050.6
Other financial instruments	49.4	0.0	0.0	0.0	49.4
Total financial instruments	**20,588.1**	**4,436.7**	**4,025.7**	**24.9**	**29,075.4**

Liabilities as at 31.12.2020 in €m

Measurement categories	Measurement at a mortised cost	Measurement at fair value through profit or loss	Total
Deposits by banks	4,303.6	0.0	4,303.6
Customer accounts*	18,131.6	0.0	18,131.6
Trading liabilities	0.0	1,902.8	1,902.8
Negative market values from derivative financial instruments	0.0	1,414.5	1,414.5
Subordinated capital	530.9	0.0	530.9
Other financial instruments	**117.7**	**0.0**	**117.7**
Total financial instruments	**23,083.8**	**3,317.3**	**26,401.1**

** Our customers' deposits are used in part to refinance our trading divisions. Customer accounts include transactions with a book value of € 35.0 million shown within the scope of the hedge accounting.

Assets as at 31.12.2019 in €m

Measurement categories	Measurement at amortised cost	Measurement at fair value through profit or loss	Measurement at fair value through other comprehensive income		Total
			with recycling	without recycling	
Cash reserve	5,731.5	0.0	0.0	0.0	5,731.5
Loans and advances to banks	1,987.0	0.0	0.0	0.0	1,987.0
Loans and advances to customers*	10,866.5	0.0	0.0	0.0	10,866.5
Trading assets	0.0	2,801.9	0.0	0.0	2,801.9
Positive market values from derivative financial instruments	0.0	1,164.2	0.0	0.0	1,164.2
Other financial assets mandatorily recognised at fair value through profit or loss	0.0	120.9	0.0	0.0	120.9
Financial assets	0.0	0.0	3,485.7	23.7	3,509.4
Other financial instruments	51.3	0.0	0.0	0.0	51.3
Total financial instruments	**18,636.3**	**4,087.0**	**3,485.7**	**23.7**	**26,232.7**

Liabilities as at 31.12.2019 in €m

Measurement categories	Measurement at amortised cost	Measurement at fair value through profit or loss	Total
Deposits by banks	2,608.1	0.0	2,608.1
Customer accounts**	17,650.8	0.0	17,650.8
Trading liabilities	0.0	1,793.8	1,793.8
Negative market values from derivative financial instruments	0.0	1,070.0	1,070.0
Subordinated capital	551.3	0.0	551.3
Other financial instruments	**85.7**	**0.0**	**85.7**
Total financial instruments	**20,895.9**	**2,863.8**	**23,759.7**

* Loans and advances to customers include transactions with a book value of € 30.1 million shown within the scope of the hedge accounting.
** Our customers' deposits are used in part to refinance our trading divisions. Customer accounts include transactions with a book value of € 36.4 million shown within the scope of the hedge accounting.

59 Remaining Maturities of Financial Instruments

The residual terms of non-derivative financial instruments are derived as follows:

in €m		<1 month	1–3 months	3–12 months	1–5 years	>5 years*	Total
Loans and advances to banks	**31.12.2020**	**1,469.4**	**7.9**	**15.2**	**46.5**	**28.5**	**1,567.5**
	31.12.2019	1,820.2	41.8	40.4	11.7	72.9	1,987.0
Loans and advances to customers	**31.12.2020**	**2,930.5**	**1,484.6**	**875.1**	**2,730.8**	**495.8**	**8,516.8**
	31.12.2019	4,263.9	1,689.4	1,029.2	2,454.4	1,429.6	10,866.5
Bonds and other fixed-income securities and tradable receivables of the trading assets	**31.12.2020**	**51.2**	**34.1**	**239.5**	**835.2**	**652.9**	**1,812.8**
	31.12.2019	48.7	45.5	100.4	944.0	836.6	1,975.2
Bonds and other fixed-income securities and promissory note loans of the financial assets	**31.12.2020**	**117.6**	**30.4**	**133.6**	**1,738.3**	**2,005.8**	**4,025.7**
	31.12.2019	94.2	71.2	328.2	1,126.7	1,865.4	3,485.7
Bonds and other fixed-income securities and promissory note loans of other financial assets mandatorily recognised at fair value through profit or loss	**31.12.2020**	**12.6**	**0.0**	**0.0**	**6.6**	**18.7**	**37.9**
	31.12.2019	29.1	0.0	2.2	0.0	30.8	62.1
Total	**31.12.2020**	**4,581.5**	**1,557.0**	**1,263.4**	**5,357.3**	**3,201.7**	**15,960.8**
	31.12.2019	**6,256.1**	**1,847.9**	**1,500.4**	**4,536.8**	**4,235.3**	**18,376.5**

* Compared to the previous year, we have adjusted the last two maturity bands with regard to the time period in order to create a uniform presentation to the disclosures in the risk report.

in €m		<1 month	1–3 months	3–12 months	1–5 years	>5 years*	Total
Deposits by banks	**31.12.2020**	**1,204.2**	**26.0**	**85.6**	**2,673.6**	**314.2**	**4,303.6**
	31.12.2019	519.3	193.1	387.7	1,039.0	469.0	2,608.1
Customer accounts	**31.12.2020**	**17,779.9**	**266.4**	**44.5**	**3.4**	**37.4**	**18,131.6**
	31.12.2019	16,805.2	696.1	108.7	0.0	40.8	17,650.8
Promissory note loans, bonds, certificates and warrants of the trading liabilities	**31.12.2020**	**387.8**	**141.7**	**504.8**	**604.8**	**241.8**	**1,880.9**
	31.12.2019	279.2	175.7	600.3	175.3	543.1	1,773.6
Lease liabilities	**31.12.2020**	**1.4**	**2.6**	**12.0**	**51.6**	**33.5**	**101.1**
	31.12.2019	1.3	2.6	11.5	25.4	8.9	49.7
Subordinated capital	**31.12.2020**	**95.9**	**0.0**	**40.0**	**35.0**	**360.0**	**530.9**
	31.12.2019	7.3	0.0	109.0	60.0	375.0	551.3
Total	**31.12.2020**	**19,469.1**	**436.7**	**686.9**	**3,368.3**	**986.9**	**24,948.0**
	31.12.2019	**17,612.3**	**1,067.5**	**1,217.2**	**1,299.7**	**1,436.8**	**22,633.5**

60 Fair Value of Financial Instruments

The fair value in accordance with IFRS is the price that would be received or paid when an asset is sold or a liability transferred within the scope of an arm's-length transaction between market participants on the valuation date. The fair value concept is therefore based on a hypothetical transaction on the valuation date. Due to the orientation towards representative market participants, the fair value must abstract from an undertaking's individual assumptions. After determining the object to be assessed, which is the equivalent of an individual financial asset or an individual financial liability, the main market is determined. This is the market with the largest trading volume and the most market activity for the valuation object. When determining the main market, all information that is accessible without any excessive effort is taken into consideration. As many relevant observable input factors as possible are taken into account when selecting suitable valuation methods. Based on the origins of the input factors used, three levels are differentiated in the fair value hierarchy.

The three fair value levels provided by IFRS 13 can be distinguished by the input factors used for the measurement.

Where the measurement is based on unadjusted quoted prices on active markets for identical financial instruments, the fair value is allocated to Level 1.

The fair value is allocated to Level 2 if input factors that are directly or indirectly observable on the market are included in the measurement that cannot be allocated to Level 1. The entire fair value may be allocated to Level 2, provided all significant input factors for the measurement process are observable.

If unobservable market parameters are included in the measurement, classification is in Level 3.

Assessments by the management are necessary when calculating the fair value. The areas for which management decisions are necessary to a significant extent are identified, documented and reported to senior management within the scope of valuation controls and the monthly reporting cycles.

Management assessments are only required to a minor extent to determine the fair value of financial instruments, the prices of which are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments are necessary, which are measured using models that are typical for the industry and whose input parameters originate in active markets.

The necessary measure of subjective measurement and assessment by management are more important for those financial instruments that are measured using special and complex models and where at least one material input parameter is not observable. The selection and application of appropriate parameters, assumptions and model techniques must be assessed by the management.

Remeasurements are an integral part of the process for determining the fair value that forms the basis for assessments. Remeasurements of the fair value are undertaken in the HSBC Trinkaus & Burkhardt Group if value-adjusting circumstances occur that might lead market participants to expect they were included in the determination of the fair value but are not taken into account directly in the valuation model. When calculating adequate remeasurements, the Group uses procedures that take into account factors such as bid / ask spreads, counterparty risk, own credit or financing risk. These remeasurements are not calculated on the basis of individual transactions but on a net basis in accordance with the steering committee.

Remeasurements of the fair value to take counterparty risks into consideration (credit valuation adjustment, CVA) are undertaken for OTC derivatives, in order to take into account the default probability of our contractual partner.

Remeasurements of the fair value to take into consideration the risk that HSBC Trinkaus & Burkhardt defaults as a contractual party (debit valuation adjustment, DVA) are also undertaken for OTC derivatives, to take into account the probability of the Bank's default.

Funding fair value adjustments (FFVA) are necessary to take into account the funding costs implied by the market when measuring the unsecured derivative position at fair value.

Key valuation issues are dealt with by the Bank's Valuation Committee.

Product Control is responsible, among other things, for the fair value measurements of financial instruments and reports to the Chief Financial Officer in this context.

Product Control carries out the following controls:

- verifying observable prices
- validating the plausibility of model valuations
- reviewing and releasing new valuation models and changing existing models
- adjusting to changed input parameters and comparing model results and observable market transactions
- analysing and examining key measurement fluctuations
- verifying significant factors that are not observable on the market, and validating the plausibility of instruments classified as Level 3.

Product Control assesses information provided by third parties, such as price offers or pricing services that are used for pricing, to ensure such external information meets the qualitative requirements.

There were no significant changes to the valuation methods used compared with 31 December 2019.

The following overviews show the allocation of the items measured at fair value to the fair value levels.

31.12.2020	Level 1	Level 2	Level 3	Total
in €m				
Assets				
Trading assets	**823.2**	**1,812.8**	**3.0**	**2,639.0**
Bonds and other fixed-income securities	0.0	647.5	0.0	647.5
Equities and other non-fixed-income securities	823.2	0.0	3.0	826.2
Tradable receivables	0.0	1,165.3	0.0	1,165.3
Positive market values of derivative financial instruments	**526.0**	**1,186.6**	**0.7**	**1,713.3**
Positive market value of derivatives	526.0	1,182.9	0.7	1,709.6
of which interest rate transactions	0.0	262.1	0.0	262.1
of which foreign-exchange-based transactions	0.0	863.4	0.7	864.1
of which equity-/index-related transactions	526.0	0.1	0.0	526.1
of which commodity-related transactions	0.0	57.3	0.0	57.3
Derivatives in hedging relationships	0.0	3.7	0.0	3.7
Financial assets	1.2	4,049.4	0.0	4,050.6
Bonds and other fixed-income securities	**0.0**	**3,950.6**	**0.0**	**3,950.6**
Promissory note loans	0.0	75.1	0.0	75.1
Investments	1.2	23.7	0.0	24.9
Other financial assets mandatorily recognised at fair value through profit or loss	16.9	50.6	16.9	84.4
Bonds and other fixed-income securities	**0.0**	**31.3**	**6.6**	**37.9**
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0
Investment certificates	1.1	0.0	0.0	1.1
Hybrid financial instruments	0.0	19.3	0.0	19.3
Investments	15.8	0.0	10.3	26.1
Liabilities				
Trading liabilities	**0.0**	**1,885.9**	**16.9**	**1,902.8**
Promissory note loans	0.0	260.8	0.0	260.8
Bonds	0.0	510.1	0.0	510.1
Certificates and warrants	0.0	1,093.1	16.9	1,110.0
Delivery obligations arising from securities sold short	0.0	21.9	0.0	21.9
Negative market values from derivative financial instruments	**93.3**	**1,320.5**	**0.7**	**1,414.5**
Negative market value of derivatives	93.3	1,269.3	0.7	1,363.3
of which interest rate transactions	0.0	232.7	0.0	232.7
of which foreign-exchange-based transactions	0.0	979.2	0.7	979.9
of which equity-/index-related transactions	93.3	0.1	0.0	93.4
of which commodity-related transactions	0.0	57.3	0.0	57.3
Derivatives in hedging relationships	0.0	51.2	0.0	51.2

31.12.2019	Level 1	Level 2	Level 3	Total
in €m				
Assets				
Trading assets	**823.5**	**1,975.2**	**3.1**	**2,801.9**
Bonds and other fixed-income securities	0.0	853.4	0.0	853.4
Equities and other non-fixed-income securities	823.5	0.0	3.1	826.7
Tradable receivables	0.0	1,121.8	0.0	1,121.8
Positive market values of derivative financial instruments	**190.3**	**972.2**	**1.7**	**1,164.2**
Positive market value of derivatives	190.3	968.3	1.7	1,160.3
of which interest rate transactions	0.0	302.4	0.0	302.4
of which foreign-exchange-based transactions	0.0	646.7	1.7	648.4
of which equity-/index-related transactions	190.3	0.4	0.0	190.7
of which commodity-related transactions	0.0	18.8	0.0	18.8
Derivatives in hedging relationships	0.0	3.9	0.0	3.9
Derivatives held in the banking book	0.0	0.0	0.0	0.0
Financial assets	**10.8**	**3,498.6**	**0.0**	**3,509.4**
Bonds and other fixed-income securities	0.0	3,405.1	0.0	3,405.1
Promissory note loans	0.0	80.6	0.0	80.6
Investments	10.8	12.9	0.0	23.7
Other financial assets mandatorily recognised at fair value through profit or loss	**10.2**	**90.1**	**20.6**	**120.9**
Bonds and other fixed-income securities	0.0	55.5	6.6	62.1
Equities and other non-fixed-income securities	0.0	0.0	0.0	0.0
Investment certificates	7.3	0.0	0.0	7.3
Hybrid financial instruments	0.0	34.6	0.0	34.6
Investments	2.9	0.0	14.0	16.9
Liabilities				
Trading liabilities	**0.0**	**1,778.6**	**15.2**	**1,793.8**
Promissory note loans	0.0	260.9	0.0	260.9
Bonds	0.0	553.9	2.3	556.2
Certificates and warrants	0.0	943.6	12.9	956.5
Delivery obligations arising from securities sold short	0.0	20.2	0.0	20.2
Negative market values from derivative financial instruments	**145.8**	**922.5**	**1.7**	**1,070.0**
Negative market value of derivatives	145.8	892.7	1.7	1,040.2
of which interest rate transactions	0.0	232.9	0.0	232.9
of which foreign-exchange-based transactions	0.0	639.4	1.7	641.1
of which equity-/index-related transactions	145.8	1.6	0.0	147.4
of which commodity-related transactions	0.0	18.8	0.0	18.8
Derivatives in hedging relationships	0.0	29.8	0.0	29.8
Derivatives held in the banking book	0.0	0.0	0.0	0.0

The measurement models and parameters for derivatives and certificates (Level 2) are derived from the following overview. The measurement of other transactions in Level 2 is by means of the present value method.

Product class	Product	Valuation model	Key measurement parameters
Equity products	Futures	Analytical formula	Price of the underlying instrument, interest rates
	European Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments
	American Plain vanilla options	Finite Differences	Price of the underlying instrument, interest rates, volatility, dividend payments
	European quanto options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	American quanto options	Finite Differences	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Barrier options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Asian options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Multi-underlying options	Numerical method	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Index certificates	Black-Scholes	Price of the underlying instrument, dividend payments
	Discount certificates	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Bonus certificates	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Express certificate	Numerical method	Price of the underlying instrument, interest rates, volatility, dividend payments
	Basket certificates	Analytical formula	Price of the underlying instrument, dividend payments
	Factor certificates	Analytical formula	Price of the underlying instrument, interest rates
Interest rate products	Plain vanilla swaps	Present value method	Interest rates
	Exotic swaps	Analytical formula	Interest rates, volatility
	Plain vanilla swaptions	Analytical formula	Interest rates, volatility
	Exotic swaptions	Tree model	Interest rates, volatility
	Plain vanilla caps, floors, collars	Black-Scholes	Interest rates, volatility
	Futures	Present value method	Interest rates
	Factor certificates	Analytical formula	Price of the underlying instrument, interest rates
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates
Currency products	Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility
	Exotic options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, correlation Correlations
	Forward currency contracts	Present value method	Price of the underlying instrument, interest rates
	FX swaps	Present value method	Price of the underlying instrument, interest rates
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates
Commodity products	Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility
	Factor certificates	Analytical formula	Price of the underlying instrument, interest rates
	Exotic options	Black-Scholes	Price of the underlying instrument, interest rates, volatility

The fair value of some financial instruments is calculated using valuation models, where at least one significant input parameter cannot be observed on the market (Level 3). These instruments include currency-hedged certificates (quanto certificates), as parameters for the correlation between the underlying and the foreign currency are not quoted on the market, and options, the measurement of which depends significantly on unobservable volatilities.

In addition, we classify illiquid equity investments and certificates that have illiquid equity instruments as underlyings under Level 3. Financial instruments that are measured using measurement models but in relation to which the counterparty's probability of default is not observable on the market as a significant measurement parameter are also attributed to Level 3.

	Assets			Liabilities					
31.12.2020	**Fair value of trading assets (in €m)**	**Fair value of other financial assets that must be measured at fair value through profit or loss (in €m)**	**Fair value of positive market values from derivative financial instruments (in €m)**	**Fair value of trading assets (in €m)**	**Fair value of negative market values from derivative financial instruments (in €m)**	**Valuation method**	**Significant unobservable parameters (Level 3)**	**Uncertainty interval margin (in €m)**	**Range of estimates for unobservable input factors**
Illiquid equity instruments/ private equity certificates	3.0			3.0		Modified asset value method	–	– 0.1 to 0.1	– 5% to 5% price change
FX options			0.7		0.7	Analytical Black-Scholes approach	FX volatility	– 0.1 to 0.1	95% confidence interval relating to the average prices for non-observable volatilities
Illiquid debt instruments		6.6				Present value method	Credit spread	– 0.1 to 0.1	– 10% to 10% credit spread change
Illiquid equity instruments		10.3				Modified asset value method	–	– 0.5 to 0.5	– 5% to 5% price change
Currency hedged certificates				13.9		Analytical Black-Scholes approach	Correlation between underlyings	0.0 to 0.0	– 58% to 25% (– 7%)

31.12.2019	Assets			Liabilities					
	Fair value of trading assets (in €m)	Fair value of other financial assets that must be measured at fair value through profit or loss (in €m)	Fair value of positive market values from derivative financial instruments (in €m)	Fair value of trading assets (in €m)	Fair value of negative market values from derivative financial instruments (in €m)	Valuation method	Significant unobservable parameters (Level 3)	Uncertainty interval margin (in €m)	Range of estimates for unobservable input factors
Illiquid equity instruments/ private equity certificates	3.1			3.1		Modified asset value method	–	0.0 to 0.0	– 5% to 5% price change
FX options			1.7		1.7	Analytical Black-Scholes approach	FX volatility	0.1 to 0.1	95% confidence interval relating to the average prices for non-observable volatilities
Illiquid debt instruments		6.6				Present value method	Credit spread	– 0.1 to 0.1	– 10 to 10% credit spread change
Illiquid equity instruments		14.0				Modified asset value method	–	– 0.7 to 0.7	– 5% to 5% price change
Volatility-dependent options				2.3		Analytical Black-Scholes approach	Volatility	– 0.0 to 0.0	14% to 18% (16%)
Currency hedged certificates				9.8		Analytical Black-Scholes approach	Correlation between underlyings	0.0 to 0.0	– 44% to 25% (– 1%)

The uncertainty interval margin for correlation-dependent currency-hedged certificates that require a correlation that is not observable on the market is calculated by shifting the estimated correlations by +/–10%. The uncertainty interval margin for volatility-dependent options is derived from the shift in the volatility of the underlying. The deflection of the volatility is up to +/–2%.

The estimate range for non-derivative financial instruments is derived by changing the credit spread by +/–10%.

If FX volatility is unobservable for FX options, we derive the range of the uncertainty interval by applying a confidence interval of 95% to the available average prices.

The portfolio of Level 3 financial instruments developed as follows in the year under report:

in €m	Assets			Liabilities	
	Trading Assets	Other financial assets mandatorily recognised at fair value through profit or loss	Positive market values from derivative financial instruments	Trading liabilities	Negative market values from derivative financial instruments
01.01.2020	**3.1**	**20.6**	**1.7**	**15.2**	**1.7**
Changes in the carrying amount					
recognised in the income statement	−0.1	0.9	−1.1	3.5	−1.1
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	0.0
Issuance	0.0	0.0	0.0	5.5	0.0
Sales	0.0	4.4	0.0	0.0	0.0
Maturities/repayments	0.0	0.2	0.0	7.3	0.0
Transfers to Level 3	0.0	0.0	0.2	0.0	0.2
Transfers out of Level 3	0.0	0.0	0.1	0.0	0.1
31.12.2020	**3.0**	**16.9**	**0.7**	**16.9**	**0.7**

in €m	Assets			Liabilities	
	Trading Assets	Other financial assets mandatorily recognised at fair value through profit or loss	Positive market values from derivative financial instruments	Trading Liabilities	Negative market values from derivative financial instruments
01.01.2019	**10.8**	**18.5**	**1.2**	**29.2**	**1.2**
Changes in the carrying amount					
recognised in the income statement	−0.9	2.3	0.0	−2.7	0.0
recognised directly in equity	0.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	0.1	3.6	0.1
Issuance	0.0	0.0	0.0	5.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Maturities / repayments	6.8	0.2	0.9	19.9	0.9
Transfers to Level 3	0.0	0.0	1.6	0.0	1.6
Transfers out of Level 3	0.0	0.0	0.3	0.0	0.3
31.12.2019	**3.1**	**20.6**	**1.7**	**15.2**	**1.7**

A transfer out of Level 1 to Level 2 takes place if prices on active markets are no longer available for identical financial instruments. Such a transfer is necessary, for example, if market activity is low in the respective financial instrument. If at least one significant market parameter is no longer observable in the Level 2 measurement, a transfer is made out of Level 2 to Level 3.

Level 1 instruments were not reclassified as Level 2 during the period under report, neither were Level 2 instruments transferred to Level 1.

Derivatives with positive and negative market values of € 0.2 million respectively (previous year: € 1.6 million) were transferred out of Level 2 to Level 3 in the same period. By the same token, derivatives with positive and negative market values of € 0.1 million respectively (previous year: € 0.3 million) were transferred out of Level 3 to Level 2 in the same period.

Due to the short maturities as well as fixed-interest periods for large parts of the loans and advances and liabilities in the business with customers and banks, the difference between fair value and present value is often immaterial for this item. The differences between present values and fair values are derived from the following table:

in €m	31.12.2020		31.12.2019	
	Book value	Fair value	Book value	Fair value
Assets				
Loans and advances to banks (gross)	1,567.7	1,567.9	1,987.2	1,987.5
Loans and advances to customers (gross)	8,621.6	8,637.1	10,919.8	11,079.4
Liabilities				
Deposits by banks	4,303.6	4,300.6	2,608.1	2,594.7
Customer accounts	18,131.6	18,132.7	17,650.8	17,653.7
Subordinated capital	530.9	542.8	551.3	571.9

The fair value of these items is calculated using the present value method. These items are allocated to Level 3 as the credit spread changes are not regularly observable on the market. Contingent liabilities amount to € 2,974.5 million (previous year: € 3,057.9 million) and irrevocable loan commitments amount to € 11,303.6 million (previous year: € 10,099.8 million).

61 Day-1 Profit or Loss

Financial instruments in Global Markets 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	2020	2019
As at 01.01	**0.0**	**0.3**
New business	0.0	0.0
Day-1 profit or loss recognised through profit or loss	0.0	–0.3
of which positions closed out	0.0	0.0
of which matured transactions	0.0	–0.3
of which observable market parameters	0.0	0.0
As at 31.12	**0.0**	**0.0**

62 Offsetting of Financial Assets and Financial Liabilities

The offsettable financial assets or those that are subject to an enforceable netting framework agreement or similar agreement are calculated as follows:

					Amounts not offset in the balance sheet		
in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial assets reported in the balance sheet (net)	Financial instruments	Cash collateral	Net amount
31.12.2020	Derivatives	1,713.3	0.0	1,713.3	524.4	323.5	865.4
31.12.2019	Derivatives	1,164.2	0.0	1,164.2	332.1	43.8	788.3

The offsettable financial liabilities or those that are subject to an enforceable netting framework agreement or similar agreement are calculated as follows:

					Amounts not offset in the balance sheet		
in €m		Financial liabilities (gross)	Offset reported amounts (gross)	Financial liabilities reported in the balance sheet (net)	Financial instruments	Cash collateral	Net amount
31.12.2020	Derivatives	1,414.5	0.0	1,414.5	524.4	256.9	633.2
31.12.2019	Derivatives	1,070.0	0.0	1,070.0	332.1	20.5	717.4

We did not offset claims and liabilities in connection with our repurchase agreement and securities lending transactions (cf. Note "Repurchase Agreements and Securities Lending").

63 Holdings in Foreign Currency

As at 31 December 2020, assets denominated in foreign currency amount to € 3,827.4 million (previous year: € 4,715.4 million) and irrevocable loan commitments amount to € 6,186.7 million (previous year: € 5,576.9 million). As in the previous year, the bulk of these assets and liabilities were in US dollars.

64 Derivatives Business

We chiefly employ derivative financial instruments in our business with customers. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. In reporting on transactions with derivatives in accordance with section 36 of the German Accounting Directive for Bank 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 represent the replacement costs attributable to trading activities that could arise in the event of default by all counterparties. No account is taken of enforceable netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €m		Nominal amounts with a residual term			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2020	Total 2019
OTC products	FRAs	0.0	0.0	0.0	0.0	0.0
	Interest rate swaps	1,691.4	4,348.4	3,077.2	9,117.0	10,216.3
	Interest rate options	1,920.6	661.9	439.1	3,021.6	3,733.6
	Forward transactions	552.5	477.5	0.0	1,030.0	1,026.9
Exchange-listed products	Interest rate futures	11.3	0.0	0.0	11.3	7.5
	Interest rate options	0.0	0.0	0.0	0.0	0.0
Interest rate transactions		**4,175.8**	**5,487.8**	**3,516.3**	**13,179.9**	**14,984.3**
OTC products	Forward currency contracts	79,579.4	3,249.1	0.0	82,828.5	84,703.8
	Cross currency swaps	38.9	262.8	113.2	414.9	525.7
	Foreign exchange options	6,077.2	1,092.7	0.0	7,169.9	7,732.3
Foreign exchange-based transactions		**85,695.5**	**4,604.6**	**113.2**	**90,413.3**	**92,961.8**
OTC products	Forward transactions	332.4	182.8	0.0	515.2	817.2
	Options	2.6	0.0	0.0	2.6	2.0
Commodity-related transactions		**335.0**	**182.8**	**0.0**	**517.8**	**819.2**
OTC products	Forward transactions	0.0	0.0	0.0	0.0	0.0
	Equity/index options	0.0	0.0	0.0	0.0	0.3
	Equity swaps	0.0	1.0	0.0	1.0	12.6
Exchange-listed products	Equity/index futures	1,246.6	435.1	0.0	1,681.7	895.4
	Equity/index options	4,145.8	1,920.2	0.0	6,066.0	6,970.4
Equity-/index-related transactions		**5,392.4**	**2,356.3**	**0.0**	**7,748.7**	**7,878.7**
Total financial derivatives		**95,598.7**	**12,631.5**	**3,629.5**	**111,859.7**	**116,644.0**

Breakdown of the derivatives business by market value

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 2020	Total 2019	Total 2020	Total 2019
OTC products	Interest rate swaps	3.2	77.1	175.8	256.1	287.9	266.6	246.2
	Interest rate options	0.2	0.9	0.4	1.5	2.8	1.5	2.9
	Forward transactions	4.6	3.6	0.0	8.2	15.6	15.8	13.5
Interest rate transactions		**8.0**	**81.6**	**176.2**	**265.8**	**306.3**	**283.9**	**262.6**
OTC products	Forward currency contracts	670.1	79.6	0.0	749.7	593.5	865.6	586.2
	Cross currency swaps	4.0	9.0	12.2	25.2	14.7	25.1	14.7
	Foreign exchange options	73.9	15.3	0.0	89.2	40.2	89.2	40.2
Foreign exchange-based transactions		**748.0**	**103.9**	**12.2**	**864.1**	**648.4**	**979.9**	**641.1**
OTC products	Forward transactions	33.1	24.2	0.0	57.3	18.8	57.3	18.8
	Options	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commodity-related transactions		**33.1**	**24.2**	**0.0**	**57.3**	**18.8**	**57.3**	**18.8**
OTC products	Forward transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.2
	Equity/index options	0.1	0.0	0.0	0.1	0.1	0.0	0.0
	Equity swaps	0.0	0.0	0.0	0.0	0.3	0.1	1.4
Equity-/index-related transactions		**0.1**	**0.0**	**0.0**	**0.1**	**0.4**	**0.1**	**1.6**
Total financial derivatives		**789.2**	**209.7**	**188.4**	**1,187.3**	**973.9**	**1,321.2**	**924.1**

65 Hedge Accounting

The Bank uses derivatives (interest rate swaps) to hedge against market interest rate risk on fixed-income bonds, loans and issued registered bonds using the provisions for the reporting of hedging relationships (cf. Note 7). We also report on the emergence and management of market interest rate risk within the Risk Report as part of the Group Management Report.

With this hedging of fair value fluctuations (known as fair value hedges), the hedged interest rate-induced volatility of the underlying transactions together with the volatility of the hedging instruments are recognised through profit or loss. Inefficiencies can arise in the existing hedging relationships, which are reflected in the hedge results. Basis risks that arise from using different discount curves in the market value calculation are usually the reason for inefficiencies in hedge results.

The following tables provide information about the accounting impact of the reporting of hedging relationships.

Hedging instruments

31.12.2020
in €m

Hedged risk	Nominal amount	Positive market values	Negative market values	Balance sheet item
Interest rate risk	1,727.9	3.7	51.3	Positive or negative market values from derivative financial instruments
Total	1,727.9	3.7	51.3	

31.12.2019
in €m

Hedged risk	Nominal amount	Positive market values	Negative market values	Balance sheet item
Interest rate risk	857.6	3.9	29.8	Positive or negative market values from derivative financial instruments
Total	857.6	3.9	29.8	

Hedged underlying transactions

31.12.2020 in €m	Book values		Cumulative hedge accounting adjustment amount, which is included in the book value of the underlying transactions		
Hedged risk	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Balance sheet item**
Interest rate risk	1,760.9	–	40.6	–	Non-trading portfolio
	–	–	–	–	Loans and advances to customers
	–	35.0	–	−2.9	Customer accounts
Total	1,760.9	35.0	40.6	−2.9	

31.12.2019 in €m	Book values		Cumulative hedge accounting adjustment amount, which is included in the book value of the underlying transactions		
Hedged risk	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**	**Balance sheet item**
Interest rate risk	821.7	–	22.8	–	Non-trading portfolio
	30.1	–	0.1	–	Loans and advances to customers
	–	36.4	–	−0.9	Customer accounts
Total	851.8	36.4	22.9	−0.9	

The hedge result can be broken down as follows:

2020 in €m			Ineffectiveness
	Balance sheet item	**Interest-induced fair value change***	**Recognised in the income statement in net trading income**
From hedging instruments	Positive or negative market values from derivative financial instruments	−13.3	−13.3
From underlying transactions	Non-trading portfolio	17.8	15.8
	Loans and advances to customers	0.0	
	Customer accounts	−2.0	
Total			2.5

2019 in €m			Ineffectiveness
	Balance sheet item	**Interest-induced fair value change***	**Recognised in the income statement in net trading income**
From hedging instruments	Positive or negative market values from derivative financial instruments	−12.9	−12.9
From underlying transactions	Non-trading portfolio	16.4	13.1
	Loans and advances to customers	−0.1	
	Customer accounts	−3.2	
Total			0.2

* The change is stated in the market value of the financial instruments used as a basis for reporting the ineffectiveness of the hedge for the period.

The fair value fluctuations of the underlying transactions that are attributable to non-interest rate-induced changes in value (such as changed credit risks) are not hedged. Where the non-trading portfolio is affected by this, these fluctuations are reported in the statement of comprehensive income as gains/losses from debt instruments at fair value through other comprehensive income (IFRS 9).

The residual terms of the interest rate swaps used within the scope of the hedge accounting are shown in the following table.

Residual terms of the hedging instruments

	Nominal amounts with a residual term			Nominal amounts
31.12.2020 in €m	**up to 1 year**	**over 1 year up to 5 years**	**over 5 years**	**Total**
Interest rate risk	0.0	753.0	974.9	1,727.9
Total	0.0	753.0	974.9	1,727.9

	Nominal amounts with a residual term			Nominal amounts
31.12.2019 in €m	**up to 1 year**	**over 1 year up to 5 years**	**over 5 years**	**Total**
Interest rate risk	30.0	333.0	494.6	857.6
Total	30.0	333.0	494.6	857.6

66 Contingent Liabilities and Other Obligations

in €m	31.12.2020	31.12.2019
Contingent liabilities on guarantees and indemnity agreements	2,974.5	3,057.9
Irrevocable loan commitments	11,303.6	10,099.8
Total	**14,278.1**	**13,157.7**

The Group generally takes on contingent liabilities on behalf of its customers that are composed primarily of financial guarantees and letters of credit. Under these contracts, the Group is obliged either to act in accordance with an agreement or to make payments to a beneficiary if a third party fails to meet its obligations. The Group is unable to know in detail the extent to which these liabilities will result in a binding obligation.

The residual terms of the contingent liabilities and irrevocable loan commitments are as follows:

in €m	31.12.2020		31.12.2019	
	Contingent liabilities	Irrevocable loan commitments	Contingent liabilities	Irrevocable loan commitments
<1 month	941.1	75.2	915.8	160.4
1–3 months	412.6	444.1	369.8	206.7
3–12 months	902.3	1,866.6	1,003.8	924.9
12 months – 5 years	610.3	8,153.3	695.3	7,923.7
> 5 years	108.2	764.4	73.2	884.1
Total	**2,974.5**	**11,303.6**	**3,057.9**	**10,099.8**

As part of the annual levy, Financial Market Stability Authority (Bundesanstalt für Finanzmarktstabilisierung – FMSA) and the Compensation Scheme of German Banks (Entschädigungseinrichtung deutscher Banken GmbH – EdB) have permitted HSBC Trinkaus & Burkhardt AG to contribute a part of the annual premium in the form of fully hedged payment claims (irrevocable payment obligation).

This partial amount of the bank levy or the contribution of the Compensation Scheme of German Banks (EdB) amounts to € 5.4 million (previous year: € 5.4 million, cf. Note "Assets Pledged as Collateral").

In 2016, the Düsseldorf public prosecutor's office initiated an investigation into the Bank's alleged involvement in cum-ex transactions. In 2020, a number of rulings were issued, unconnected with the Bank, according to which it cannot be ruled out that expenses may be incurred in this context in the future. It is not possible to quantify these expenses from today's perspective. No material legal disputes or associated litigation risks were pending as at 31 December 2020.

67 Disclosures as Lessor

HSBC Trinkaus & Burkhardt Group is, to a lesser extent, a lessor of commercial real estate.

The following minimum leasing payments will be received from these agreements in the coming years:

	31.12.2020	31.12.2019
Up to 1 year	1.8	1.8
Over 1 year up to 5 years	5.5	8.6
Over 5 years	0.6	1.2
Total maturities	**7.9**	**11.6**

68 Assets Pledged as Collateral

Securities with a nominal value of € 460.6 million (previous year: € 377.9 million) were deposited as collateral for transactions conducted on futures exchanges and for securities lending transactions. The Bank pledged collateral in the amount of € 2,200.0 million (previous year: € 1,100.0 million) in connection with longer-term refinancing operations with the central bank. In the public development lending business, loans and advances in the amount of € 842.7 million (previous year: € 756.1 million) secure the funding available to the development banks. In conjunction with the bank levy or the EdB contribution, the Bank has lodged cash collateral of € 5.4 million (previous year: € 5.4 million).

Financial instruments with a value of € 357.3 million (previous year: € 377.8 million) were available for use as collateral for peak funding facilities on the balance sheet date.

69 Trust Activities

As an indication of the extent of the potential liability from the Bank's off-balance-sheet trust activities, the following table shows the volume of trust activities.

in €m	**31.12.2020**	**31.12.2019**
Trust assets	**107.1**	**107.2**
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Investments	107.1	107.2
Trust liabilities	**107.1**	**107.2**
Deposits by banks	0.0	0.0
Customer accounts	107.1	107.2

Assets managed for investors in special assets and investment stock corporations amount to € 272.7 billion (previous year: € 251.9 billion).

70 Participating Interests

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

Company	Registered office	Percentage share of issued share capital in %	Shareholders' equity of the company in € thousand***	Annual result 2020 in thousand €
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH*	Düsseldorf	100.0	118,502	0
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	20,202	3,900
Internationale Kapitalanlagegesellschaft mbH*	Düsseldorf	100.0	49,000	0
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,855	–8
HSBC Service Company Germany GmbH*	Düsseldorf	100.0	1,000	0
HSBC Transaction Services GmbH*	Düsseldorf	100.0	15,000	0
HSBC Operational Services GmbH	Düsseldorf	90.1	1,000	0
HSBC Trinkaus Family Office GmbH*	Düsseldorf	100.0	25	0
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	274	24
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	25	5
HSBC Global Asset Management (Deutschland) GmbH*	Düsseldorf	100.0	5,001	0
HSBC Global Asset Management (Österreich) GmbH****	Vienna	100.0	360	–46
HSBC Global Asset Management (Switzerland) AG	Zurich	50.0	1,884	288
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	12
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	29	7
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	25	6
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	22	0
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	25	1
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	25	19
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	10,804	2,315

* Profit-transfer agreement
** Equities issued by private companies
*** Shareholders' equity as at 31.12.2020, without current annual results
**** Figures as at 31.12.2019

The Bank also holds a 24.94% stake in sino AG, Düsseldorf. As at 30 September 2019, the equity held in the company amounted to € 4,660 thousand and net profit to –€ 125 thousand.

The holdings of equity instruments recognised at fair value through other comprehensive income relate to indirect shareholdings in Nürnberger Versicherung (€ 24.9 million).

On the balance sheet date, the Group held no share with controlling influence.

There are no material restrictions in place with regard to the ability of the HSBC Trinkaus & Burkhardt Group to access or use assets and repay the liabilities of Group units.

71 Relationships with Unconsolidated Structured Units

The structured units are units for which the voting rights are not the dominant factor in assessing control. This is the case, for example, if voting rights relate only to the administrative duties and the relevant activities are managed by contractual agreements.

The activities of a structured unit are generally limited and are therefore restricted to a close and precisely defined corporate purpose.

In the HSBC Trinkaus & Burkhardt Group, the business relationships with structured units are broken down into the following three groups:

Structured capital market products:

In the HSBC Trinkaus & Burkhardt Group, structured units are used to provide customers with access to specific assets or portfolios of assets. They can be established as corporations, investment companies, partnerships or funds. They include mainly real estate funds, private equity funds and securities funds. Group companies may exercise the function of a fund manager, trustee or other functions. The Group also invests in funds that are launched by third parties.

Property/project financing

Within the framework of the lending business, the HSBC Trinkaus & Burkhardt also extends loans to financing vehicles. These companies are structured units if they have been founded specifically for the purpose of financing or operating the respective financed asset (e.g. a property) and these are not controlled primarily via the voting rights. Such financing is generally secured by the assets to be financed. The Group operates here primarily as a lender to the financing vehicles.

Asset management business:

The asset management business comprises the capital management business operated under the provisions of the German Investment Code (Kapitalanlagegesetzbuch – KAGB), the asset management and the custodian bank business. The Group acts here as a service provider to investment funds, which represent structured units within the meaning of the accounting standards, among other things.

Structured units are consolidated in the HSBC Trinkaus & Burkhardt Group if the relationship between the Group and the structured unit shows that the unit is controlled by the Group.

The structured units that are the subject of this item of the Notes are not consolidated because the Group does not exercise any control.

The Group achieves revenue from the provision of services, such as asset management remuneration and commission from the asset management business. In addition, dividends and interest income are generated by funding parts of the structured units.

The income and expenses from business relationships with non-consolidated structured units are broken down as follows:

31.12.2020 in €m	Structured capital market products	Property/project financing	Asset management business
Income from non-consolidated structured units			
Net interest income	2.5	7.6	–11.7
Net fee income	11.6	1.4	180.9
Net other income	0.0	0.0	0.0

31.12.2019 in €m	Structured capital market products	Property/project financing	Asset management business
Income from non-consolidated structured units			
Net interest income	2.4	5.3	–9.9
Net fee income	23.7	0.5	173.3
Net other income	0.0	0.0	0.0

The maximum default risk is understood as the highest possible loss that can be incurred from the relations with the structured units. The maximum loss exposure from assets with respect to non-consolidated structured units is equivalent to the book values of these positions after net loan impairment and other credit risk provisions, as at the respective reporting date. The maximum default risk for financial guarantees and loan commitments is the nominal amount of the commitment, as at the respective reporting date. Collateral received and other risk-reducing techniques are not taken into consideration.

The following tables show the book values of the assets, the maximum default risk, the scope of the structured units as well as the liabilities of the HSBC Trinkaus & Burkhardt Group to the non-consolidated structured units, as at the respective reporting date. Regarding the extent of the structured units, the total assets of companies and the amount of assets under management for funds are taken into consideration.

31.12.2020 in €m	Structured capital market products	Property/project financing	Asset management business
Assets			
Loans and advances to customers	154.6	543.7	224.3
Trading assets	3.0	0.0	0.0
Financial assets	7.8	0.0	0.0
Other assets	0.1	0.0	249.8
Total assets	**165.5**	**543.7**	**474.1**
Loan commitments	0.8	131.1	0.0
Maximum default risk	**166.3**	**674.8**	**474.1**
Scope of the structured units*	**7,033.8**	**1,197.7**	**1,072,138.2**
Liabilities			
Customer accounts	221.5	16.4	8,190.7
Other liabilities	2.7	0.2	8.0
Total liabilities	**2.7**	**16.6**	**8,198.7**

* Some figures as at 31.12.2019

31.12.2019 in €m	Structured capital market products	Property/project financing	Asset management business
Assets			
Loans and advances to customers	188.3	470.7	752.7
Trading assets	3.1	0.4	0.0
Financial assets	10.2	0.0	0.0
Other assets	0.0	0.0	3.1
Total assets	**201.7**	**471.1**	**755.8**
Loan commitments	0.4	202.0	0.0
Maximum default risk	**202.1**	**673.1**	**755.8**
Scope of the structured units*	**5,699.4**	**928.7**	**987,211.5**
Liabilities			
Customer accounts	10.2	14.2	7,283.0
Other liabilities	3.1	0.9	22.6
Total liabilities	**13.4**	**15.1**	**7,305.6**

* Some figures as at 31.12.2018

As in the previous year, no non-contractual financial support was granted to non-consolidated structured units in the 2020 financial year.

72 Releasing Subsidiaries from the Disclosure Requirement in Accordance with Sections 264 (3) and 264b of the German Commercial Code (HGB)

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

- 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
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- HSBC Operational Services GmbH, Düsseldorf
- HSBC Service Company Germany GmbH, Düsseldorf
- Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH und Co. KG, Düsseldorf

73 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 HSBC Transaction Services GmbH, Düsseldorf – are in a position to fulfil their contractual obligations.

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

74 Staff

Annual average	**2020**	**2019**
Staff employed abroad	0	5
Staff employed in Germany	2,995	3,092
Total (including trainees)	**2,995**	**3,097**
of which female members of staff	1,267	1,309
of which male members of staff	1,728	1,788

75 Auditors' Fees

The following fees for the auditors of the consolidated accounts, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, including expenses, were reported as expense:

in €m	2020	2019
Audit services	2.6	2.5
Other audit services	0.3	0.9
Tax advisory services	0.0	0.0
Other services	0.0	0.0
Total	**2.9**	**3.4**

The auditing services comprise mainly the fees for the audit of the Bank's financial statements and consolidated financial statements, as well as the subsidiaries included in its consolidated financial statements, for the audit of the securities services and custodial business. Other audit services contain mainly fees for audit and consulting services prescribed by law and by the regulatory authorities.

76 Business Relationships with Companies and Persons Defined as Related Parties

Companies and persons are defined as related parties provided one party exercises direct or indirect control or can exercise a significant influence on their business or operating decisions.

As part of its ordinary course of business, HSBC Trinkaus & Burkhardt AG and / or its consolidated companies enter into business relationships with companies and persons defined as related parties. These include HSBC Group companies as well as persons in key positions and their relatives. Persons in key positions comprise exclusively the active members of the Management and Supervisory Boards of HSBC Trinkaus & Burkhardt AG in the financial year.

Business transactions with companies and persons defined as related parties are carried out under the same terms and conditions as business transactions with independent business partners.

Particularly intensive business relationships are fostered with other HSBC Group companies. These business relationships relate firstly to normal bank transactions, which are usually unsecured. Derivative transactions, on the one hand, are generally concluded and collateralised under master agreements that allow netting. To an increasing extent, however, there are also cooperation and agency agreements with various companies of the HSBC Group. The consolidated income statement includes mainly the following income and expenses from transactions with HSBC Holdings plc, London, and its affiliated companies.

in €m	2020	2019
Interest income	1.8	0.8
Interest expense	4.0	7.0
Fee income	83.4	87.1
Fee and commission expenses	7.3	9.0
Administrative expenses	75.8	37.7
Net trading income	0.2	–0.4
Net other income	0.0	0.0
Total	**–1.7**	**33.8**

Assets include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Loans and advances to banks	1,058.2	1,523.4	0.0	0.0
Loans and advances to customers	0.1	0.2	66.7	92.2
Other assets	4.6	8.2	0.0	0.0
Total	**1,062.9**	**1,531.8**	**66.7**	**92.2**

Loans and advances to banks comprise mainly short-term deposits with other HSBC units.

Liabilities include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Deposits by banks	746.3	410.2	0.0	0.0
Customer accounts	0.5	5.3	17.4	14.3
Other liabilities	362.4	357.9	0.0	0.0
Total	**1,109.2**	**773.4**	**17.4**	**14.3**

Deposits by banks comprise mainly short-term deposits of other HSBC units. Other liabilities primarily include subordinate deposits of HSBC Bank plc.

Trading assets / liabilities and financial assets do not include any transactions concluded with affiliated companies. The derivative transactions concluded with affiliated companies (mainly interest rate and currency-related derivative transactions) are shown in the following table:

	Derivatives	
in €m	**31.12.2020**	**31.12.2019**
Derivatives with positive market values	757.1	576.9
Derivatives with negative market values	568.3	499.7
Total	**1,325.4**	**1,076.6**

Compensation of the Executive Bodies

In accordance with the resolution passed at the Annual General Meeting on 14 June 2017, the information pursuant to section 314 para. 1 no. 6 a sentences 5 to 8 of the German Commercial Code (HGB) relating to the personalised remuneration details of the members of the Management Board is not to be disclosed.

At €5,212.1 thousand, the sum of the compensation components defined as fixed compensation pursuant to section 2 para. 6 of the Remuneration Ordinance for Institutions (InstitutsVergVO) for all members of the Management Board was slightly lower in 2020 than in the previous year (€5,675.0 thousand). The variable remuneration component amounted to €2,623.7 thousand (previous year: €3,438.1 thousand). Remuneration of the Management Board members for the 2020 financial year amounted to €1,368.9 thousand (previous year: €1,816.1 thousand) in the form of shares and €1,254.8 thousand (previous year: €1,622.0 thousand) in cash. The variable share of the Management Board remuneration for the 2020 financial year includes a long-term remuneration component of €1,619.8 thousand (previous year: €2,140.5 thousand), of which €752.9 thousand (previous year: €973.2 thousand) is attributable to variable remuneration paid in cash and €867.0 thousand (previous year: €1,167.3 thousand) is attributable to variable remuneration in HSBC Holdings plc. shares.

Severance payments for material risk takers in the amount of €2.2 million (previous year: €1.1 million) were granted in 2020.

For the members of the Management Board and their surviving dependants, provisions have been created to cover pension obligations in accordance with IFRS in the amount of €9.4 million (previous year: €15.8 million). In the financial year, €0.8 million (previous year: €0.9 million) was recognised in the income statement.

The compensation for members of the Supervisory Board is governed in the Articles of Association, on the basis of which each member of the Supervisory Board receives a fixed salary of €50,000. The chairperson receives two and a half times this amount and the deputy chairperson two times this amount. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned remuneration of a member of the Supervisory Board, provided the respective committee has met at least once in the financial year. Where a member of the Supervisory Board has more than one office, such member is only remunerated for the office with the highest remuneration. Where membership in the Supervisory Board or a committee does not last the duration of an entire financial year, the remuneration is reduced on a pro rata basis.

In the 2020 financial year, remuneration of the Supervisory Board members amounted to €1,096,002.94 (previous year: €1,164,950.02). No separate pension obligations exist for Supervisory Board members. The general rules for employees, former Managing Partners and former members of the Management Board apply for the pension obligations to the employee representatives, former Managing Partners and the former members of the Management Board of the Bank.

Payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG as the legal predecessors of HSBC Trinkaus & Burkhardt AG and their surviving dependants, as well as former members of the Management Board of Trinkaus & Burkhardt AG totalled €4.5 million (previous year: €4.3 million). The pension provisions created to cover pension obligations for this group of persons according to IFRS totalled €51.0 million (previous year: €43.7 million).

Total expenditure in accordance with IAS 24 for the 2020 financial year amounted to €9.8 million (previous year: €11.6 million). This was recognised in administrative expenses in the period in which it arose and according to the provisions of the underlying standards.

77 Share-Based Payments

Performance-related remuneration for staff and members of the Management Board

As in the previous year, performance-related remuneration for employees and Management Board members was partially carried out by means of assigning shares of HSBC Holdings plc. Shares in the amount of €11.1 million (previous year: €13.2 million) were assigned for the 2020 financial year. The shares will be transferred on a pro rata basis in the following financial years.

78 Offices held by Members of the Management Board

As at 31 December 2020, the members of the Management Board and of the Executive Committee of HSBC Trinkaus & Burkhardt AG sat on the following statutory supervisory boards or comparable management bodies:

Dr Rudolf Apenbrink

Position	Company
Chairman of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (Hong Kong) Ltd., Hong Kong (until 16 September 2020)
Chairman of the Board	HSBC Global Asset Management (UK) Ltd, London, United Kingdom

Dr Andreas Kamp

Position	Company
Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Christian Kolb

Position	Company
Member of the Supervisory Board	Exaloan AG, Frankfurt am Main

Thomas Runge

Position	Company
Chairman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Carola Gräfin v. Schmettow (Chairperson)

Position	Company
Member of the Supervisory Board	ThyssenKrupp AG, Essen (until 31 January 2020)
Non-Executive Director	HSBC Continental Europe S.A., Paris, France

Dr Jan Wilmanns (until 30 June 2020)

Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (until 1 May 2020)
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf (until 1 July 2020)

79 Offices Held by Other Members of Staff

As at 31 December 2020, the following employees sat on the following statutory supervisory boards or comparable control bodies of large corporations:

Dr Michael Böhm

Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland
Non-Executive Director	HSBC Senior UK Direct Lending 2020 RAIF SICAV-SA, Luxembourg
Non-Executive Director	HSBC Global Investment Funds SICAV, Luxembourg
Non-Executive Director	HSBC Islamic Funds, Luxembourg
Non-Executive Director	HSBC Portfolios SICAV, Luxembourg

Thomas Fahlenbock

Position	Company
Member of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf
Member of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Ulrich Gericke

Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	Monega Kapitalanlagegesellschaft mbH, Cologne

Carsten Hennies

Position	Company
Chairman of the Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg

Wolfgang Jakobs (until 30 October 2020)

Position	Company
Member of the Supervisory Board	Deutsche Handelsbank AG, Munich

Thorsten Michalik

Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

Gerald Noltsch

Position	Company
Chairman of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Götz Röhr

Position	Company
Member of the Supervisory Board	Theodor-Fliedner-Heim GmbH, Solingen
Member of the Supervisory Board	tick Trading Software AG, Düsseldorf
Member of the Supervisory Board	sino AG, Düsseldorf

Norbert Stabenow

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

Oliver Szepan

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Andreas Voglis

Position	Company
Member of the Supervisory Board	I-Advise AG, Düsseldorf

Heiner Weber (until 30 June 2020)

Position	Company
Member of the Supervisory Board	Pensionskasse vom Deutschen Roten Kreuz, VVaG, Bonn
Member of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland (until 7 April 2020)

Steffen Zeise

Position	Company
Member of the Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

80 Offices Held by Supervisory Board Members

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

Samir Assaf (until 8 June 2020)

Position	Company
Chairman of the Board (non-executive)	HSBC Continental Europe S.A., Paris, France
Member of the Board (non-executive)	SABB SA Saudi Arabia, Saudi Arabia

James Alasdair Emmett (until 31 March 2020)

Position	Company
Member of the Board (non-executive)	HSBC Continental Europe S.A., Paris, France (until 16 March 2020)

Paul Hagen (Chairman)

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of the Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin

Siglinde Klaußner

Position	Company
Member of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Dr Christiane Lindenschmidt

Position	Company
Non-Executive Director	Symphony Communication Services LLC, Palo Alto (CA), USA

Nuño Gonçalo de Macedo E Santana de Almeida Matos

Position	Company
Non-Executive Director	HSBC Continental Europe S.A., Paris, France

Andreas Schmitz (Chairman, until 31 December 2020)

Position	Company
Chairman of the Supervisory Board	Scheidt & Bachmann GmbH, Mönchengladbach
Member of the Supervisory Board	E.ON SE, Essen

Dr Eric Strutz

Position	Company
Member of the Board of Directors	Global Blue S.A., Eysins, Switzerland (until 20 November 2020)
Member of the Board of Directors	Global Blue Group AG, Brüttisellen, Switzerland (until 23 November 2020)
Member of the Board of Directors	Luxembourg Investment Company 261 S.a.r.l., Luxembourg
Vice Chairman of the Board of Directors	Partners Group Holding AG, Baar, Switzerland
Member of the Board of Directors	Partners Group AG, Baar, Switzerland
Non-Executive Director	HSBC Bank plc, London, UK

Sandra Jessica Stuart

Position	Company
Chairman of the Board	HSBC Global Asset Management (Canada) Limited, Vancouver, Canada (until 31 August 2020)

Hans-Jörg Vetter (until 30 June 2020)

Position	Company
Chairman of the Supervisory Board	Herrenknecht AG, Schwanau

Daniela Weber-Rey

Position	Company
Member of the Board of Directors	FNAC Darty S.A., Ivry-sur-Seine, France

Andrew Merlay Wright

Position	Company
Non-Executive Director	HSBC Bank plc, London, UK

81 Publication

The annual report will be released for publication on 2 March 2021.

Düsseldorf, 24 February 2021

Carola Gräfin v. Schmettow

Dr Rudolf Apenbrink

Fredun Mazaheri

Nicolo Salsano

Thomas Runge

Independent Auditor's Report

To HSBC Trinkaus & Burkhardt AG, Düsseldorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in capital and consolidated cash flow statement for the financial year from 1 January to 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group management report of HSBC Trinkaus & Burkhardt AG for the financial year from 1 January to 31 December 2020. We have not audited the content of those parts of the Group management report listed in the "Other information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group management report does not cover the content of those parts of the Group management report listed in the "Other information" section of our auditor's report.

Pursuant to § 322 para. 3 [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the Group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. **Net loan impairment provision in the customer lending business**

2. **Presentation of net fee income**

3. **Presentation of intangible assets**

4. **Presentation of restructuring provisions**

Our presentation of these key audit matters has been structured in each case as follows:

(a) Matter and issue

(b) Audit approach and findings

(c) Reference to further information

Hereinafter we present the key audit matters:

1. Net loan impairment provision in the customer lending business

(a) Loan receivables amounting to €8,516.8 million (28.9 % of total assets) are reported under the "Loans and advances to customers" balance sheet item in the company's consolidated financial statements. As at 31 December 2020, net loan impairment provision for the loan portfolio amounting in total to €104.8 million was reported in the balance sheet. The measurement of net loan impairment provision in the customer lending business is determined in particular by the structure and quality of the loan portfolios, macroeconomic influencing factors and the estimates of the executive directors with regard to future loan defaults, among other things also against the background of the expected effects of the ongoing COVID-19 crisis on the customer lending business. Loans and advances to customers are measured at amortised cost under IFRS 9. Net loan impairment provision is calculated in a three-stage model, whereby financial instruments are basically allocated to stage 1. Expected 12-month loan losses are to be presented for these instruments. If there is a significant increase in the default risk compared to the time of recognition (stage 2), the amount for the losses expected for the entire residual term is recorded as net loan impairment provision. This also applies to credit-impaired financial instruments (stage 3). For the first time, the company has formed post-model adjustments when forming net loan impairment provision. These serve to take into account the expectations of the executive directors that have not yet been taken into account in the models. The value adjustments in the customer lending business are, on the one hand, of great importance for the earnings situation of the company in terms of amount, while they also entail considerable discretionary powers on the part of the executive directors. In addition, the valuation parameters applied, which are also subject to significant uncertainties due to the effects of the COVID-19 crisis, have a significant influence on the creation or the amount of any necessary value adjustments. Against this background, this matter was of particular significance in the context of our audit.

(b) For the purposes of our audit, we first of all assessed whether the design of the controls in the company's relevant internal control system was appropriate and tested whether the controls functioned effectively. We included the business organisation, the IT systems and the relevant measurement models in our assessment. We also assessed, among other things, whether the models for calculating the expected loss as well as their implementation into the Bank's processes are in line with IFRS 9. In addition, we examined whether significant increases in the default risk were adequately defined by the Bank. We also evaluated the measurement of the customer loan receivables, including the appropriateness of estimated values, on the basis of sample testing of stage 3 loan exposures. For the purposes of this exercise, among other things we reviewed the documentation available to the company in order to assess the economic circumstances of borrowers and the recoverability of the related collateral. With respect to real estate as collateral for which the company has submitted expert appraisals to us, we obtained an understanding of the underlying source data, value inputs used and assumptions made, evaluated those factors critically and assessed whether they lay within a reasonable range. In addition, for the purpose of assessing the valuation allowances applied for stage 1 and 2 exposures, we evaluated the calculation methodology applied by the company together with the underlying assumptions and parameters. In particular, we also considered the executive directors' assessment of the effects of the COVID-19 crisis on the economic circumstances of the borrowers and the recoverability of the relevant collateral and took these into account in the valuation of the loans and advances to customers. We questioned the necessity of the formation of post-model adjustments and determined their amount. On the basis of the audit procedures we carried out, we satisfied ourselves overall that the assumptions made by the executive directors for the purpose of reviewing the recoverability of the loan portfolio are appropriate, and that the processes implemented by the company are appropriate and effective.

(c) The company's disclosures regarding net loan impairment provision for the customer lending business are contained in Notes 22 and 38 of the notes to the consolidated financial statements.

2. Presentation of net fee income

(a) Net fee income amounting to €494.0 million is reported in the income statement in the company's consolidated financial statements. This significant item is subject to particular accounting related risk due to the complexity of the systems necessary for accurately recording it, the large number and heterogeneous nature of transactions requiring processing and the earnings contributions in certain areas attributable to transactions involving large non-recurring effects. The large non-recurring effects resulted from individual transactions concluded during the reporting year. Against this background, this matter was of particular significance in the context of our audit.

(b) For the purposes of our audit, we first assessed the appropriateness and effectiveness of the controls in the business processes for specific products and the relevant controls established within the company's internal control system for the initial recording of the various transactions in the company's portfolio management systems through to the reporting of the resulting income and expenses in the general ledger. In addition, we verified, among other things, the calculation and accounting treatment of various components of income and expense on a test basis based on the documents provided to us. Furthermore, we verified the allocation of commission income and expenses to the correct periods, as well as the consistency of the methods used by the company to recognise commission income and expenses. We were able to satisfy ourselves that the systems and processes in place, as well as the established controls, are appropriate overall for the purpose of ensuring that net fee income is presented correctly.

(c) The company's disclosures regarding net fee income are contained in Note 45 of the notes to the consolidated financial statements.

3. Presentation of intangible assets

(a) Software amounting to €73.4 million is reported under the "Intangible assets" item (€77.8 million, 0.3 % of total assets) in the company's consolidated financial statements. As part of the expansions of the system for securities settlement and administration, a significant amount of internal and external expenses are capitalised to put the software into working condition. Furthermore, internal and external expenses were capitalised to a significant extent in connection with the introduction of the new core banking system up to 2019. In the 2020 financial year, the Bank's previously pursued IT strategy of introducing the SAP core banking system was abandoned. Instead, the bank opted for a migration to the HSBC group systems. As a result of this change in IT strategy, unscheduled amortisation of intangible assets amounting to €11.8 million was carried out in the financial year. Furthermore, the useful life of the SAP module in operation was also adjusted from ten years to five years. Intangible assets ready for use are valued at purchase cost, less scheduled and unscheduled amortisation. The regular depreciation recorded in administrative expenses is distributed over the expected useful life of the asset of three to ten years on a straight-line basis. Intangible assets not yet ready for use for which no regular depreciation has yet been recorded have to be subjected to an annual impairment test. Furthermore, a corresponding impairment test is to be carried out for all intangible assets if triggering events exist that there could be a decrease (or increase) in value. Internal and external sources of information are drawn on for this purpose. As there are considerable discretionary powers when assessing the obligation to capitalise internal and external expenses and capitalisation has a significant impact on the earnings situation, this matter was of particular significance in the context of our audit.

(b) For the purposes of our audit, we assessed, among other things, the processes and controls established within the company that ensure compliance with the principles for reporting of intangible assets according to international accounting regulations. This also included assessing the details of the guidelines drawn up regarding the recognition of internal and external expenses. In addition, we verified, among other things, the application of the valuation provisions on a test basis based on the documents provided to us. By asking questions and inspecting the documents, we assessed whether there are indications for impairment. In the case of unscheduled amortisation and depreciation, we have reconstructed the documents supporting the entries. We were able to satisfy ourselves that the processes are appropriate overall for the purpose of ensuring that intangible assets are presented correctly.

(c) The company's disclosures regarding intangible assets are contained in Note 11 "Intangible assets" and Note 27 "Investment overview" of the notes to the consolidated financial statements.

4. Presentation of restructuring provisions

(a) In the previous year, the company launched a Group-wide, multi-year programme to improve internal efficiency. This programme provides for fundamental restructuring in parts of the Group and, in particular, the relocation of certain processes to countries where the HSBC Group has already gained experience in pooling service and supply functions. At the same time, the Bank will increasingly rely on future-oriented technologies such as digitalisation and automation in order to achieve the efficiency goals it has set. After all preparations for the implementation of the efficiency programme subject to co-determination had been completed and communicated within the company in the course of 2019, provisions for severance payments under the programme were already made in the consolidated financial statements as at 31 December 2019. Due to the COVID-19 pandemic, the company decided in March 2020 to temporarily suspend the implementation of the planned job cuts to a large extent and not to resume them in full until summer 2020. To counteract the expected negative economic effects of the COVID-19 pandemic, additional measures to increase efficiency were also decided upon later in the year which also fall under the financial framework of the efficiency programme. Against this background, further provisions for severance payments were created during 2020. At the same time, a large number of individual personnel measures, for which provisions had already been made in 2019, were completed and the corresponding provisions used up.

A prerequisite for the recognition of a restructuring provision is that the general recognition criteria for provisions according to IAS 37.14 are fulfilled, which are further specified for restructuring measures within the meaning of IAS 37.10 by the regulations in IAS 37.70 et seq. As at 31 December 2020, there is a restructuring provision in accordance with IAS 37.10. in conjunction with IAS 19.159 et seq. in the amount of €25.3 million. From our point of view, this matter was of particular importance for our audit, as the accounting of restructuring provisions is based to a large extent on estimates and assumptions made by the executive directors.

(b) In our audit, we have assessed, among other things, whether the necessary inclusion criteria have been met. For this purpose, we have obtained the relevant evidence from the executive directors of the company. We have also assessed the valuation carried out by the Bank in terms of its suitability, methodology and comprehensibility of the assessment of value. This has enabled us to obtain an understanding of the underlying source data, value inputs and assumptions made, critically evaluate them and assess whether they are within a reasonable range. We were able to satisfy ourselves that the circumstances, as well as the estimates and assumptions made by the executive directors for the inclusion and valuation of the restructuring provision, are sufficiently documented and justified. The value inputs and assumptions applied by the executive directors are generally in line with our expectations and are also within the ranges that we consider to be acceptable.

(c) The company's disclosures regarding the restructuring provision are contained in Note 37 of the notes to the consolidated financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the Group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Statement on corporate governance" of the Group management report
- the "Sustainable corporate governance" and "Employees" sections of the Group management report.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited Group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the Group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e para. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e para. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with German law and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the Group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 9 June 2020. We were engaged by the Supervisory Board on 10 June 2020. We have been the Group auditor of HSBC Trinkaus & Burkhardt AG, Düsseldorf, without interruption since the 2015 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Christoph Lehmann.

Düsseldorf, 1 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christoph Lehmann ppa.
Auditor

Susanne Beurschgens
Auditor

Our Values

HSBC Germany is part of the HSBC Group, one of the world's largest financial institutions. It has a network in 64 countries and territories worldwide, representing over 90 % of the world's economic output, global trade and capital flows. HSBC Germany's clients are companies, institutional clients, the public sector and high net worth private clients.

Our purpose
Opening up a world of opportunity

Our strategy
Our strategy supports our ambition of being the preferred international financial partner for our clients.

Our values
Our values define who we are and guide us as we work with our clients, society and each other.

- **We value difference –** Seeking out different perspectives
- **We succeed together –** Collaborating across boundaries
- **We take responsibility –** Holding ourselves accountable and taking the long view
- **We get it done –** Moving at pace and making things happen

Report of the Supervisory Board

Management

The Supervisory Board met eight times during the 2020 financial year. At its meetings conducted during the financial year, the Supervisory Board received comprehensive reports from the Management Board on the performance of business at the Bank, its major subsidiaries and individual business areas. The regular reports given by the Management Board to the Supervisory Board addressed current business development against target figures and the figures of the corresponding period of the previous year, risk management aspects, external audit activities, and corporate governance issues. The Bank's investment securities (including the relevant valuation), liquidity and capital situation were also presented to the Supervisory Board and the Risk Committee. The development of net loan impairment provisions was explained in detail by the Management Board. Furthermore, the Supervisory Board dealt with the coronavirus crisis, the further development of the Bank's strategy summarised under "Germany Transformation", the establishment of HSBC Service Company GmbH and current developments in the banking environment (including capital issues and stress tests). The takeover of Commerzbank's securities settlement business and the introduction of a new core banking system, along with the topics of increasing efficiency, cost reduction and operational resilience, were the subject of discussion by the Supervisory Board in every meeting. In a dedicated meeting, the Supervisory Board prepared the extraordinary general meeting with the resolution to transfer the shares of the minority shareholders to the majority shareholder in return for an appropriate cash settlement. Furthermore, the Supervisory Board received detailed reports on the developments and challenges in the divisions.

External auditors took part in the Supervisory Board's meeting regarding the financial statements for the previous year.

Activities of the Supervisory Board's committees

In order to permit the more efficient handling of selected management issues, the Supervisory Board set up five separate committees from amongst its members. Specifically, the following committees are established:

- **the Mediation Committee,** whose task is to submit a proposal to the Supervisory Board if the appointment of a member to the Management Board failed to achieve the required two-thirds majority;
- **the Nomination Committee,** which nominates candidates to be proposed by the Supervisory Board for election to the Supervisory Board by the General Meeting, and which supports the Supervisory Board – in accordance with the provisions of the German Banking Act – inter alia in identifying candidates for appointment to the Management Board, and in reviewing the structure, size, composition and performance of the Management Board and the Supervisory Board;
- **the Remuneration Committee,** whose duties include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board (including its remuneration), long-term succession planning (to be

pursued jointly with the Management Board), handling conflicts of interests affecting members of the Management Board or the Supervisory Board, monitoring whether remuneration systems are appropriate, monitoring the proper inclusion of internal control instances and any other relevant areas in the structuring of remuneration systems, and approving connected-party loans to the Bank's employees or to members of the Supervisory Board;

- **the Audit Committee,** which supports the Supervisory Board in various tasks, including the monitoring of the accounting and financial reporting process, the effectiveness of the risk management system, and in carrying out the audits of the financial statements – especially with regard to the independence of the external auditors proposed, and the services rendered by them;

- **the Risk Committee,** whose duties include advising the Supervisory Board on the company's current and future total risk appetite and strategy, and accepting the periodic reports of the Management Board on the Bank's risk situation and any substantial shortcomings identified by Internal Audit, as well as any material shortcomings not yet remedied. The Supervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act – particularly with regard to connected-party loans to enterprises. Furthermore, the Risk Committee also discusses the risk strategy with the Management Board, who is responsible for devising it.

The Mediation Committee has four members, the Nomination Committee has three, the Remuneration Committee five, and the Audit and Risk Committees have four members each. In line with legal requirements and the recommendations set out by the Corporate Governance Code, the chairperson of the Supervisory Board chairs the Mediation Committee, the Nomination Committee, and the Remuneration Committee.

The Nomination Committee met six times, the Remuneration Committee five times, the Risk Committee five times, and the Audit Committee seven times.

The Nomination Committee concerned itself – in accordance with legal requirements – with the structure, size, composition and performance of the Management Board and the Supervisory Board, as well as with the skills, professional aptitude and experience of individual Management Board and Supervisory Board members, as well as of the respective executive body in its entirety.

The Remuneration Committee submitted proposals concerning Management Board remuneration to the Supervisory Board and discussed the Bank's remuneration system with the Management Board. Furthermore, the Committee approved the acceptance of Supervisory Board mandates by members of the Management Board.

Prior to the respective publications, the Audit Committee discussed the 2019 financial statements in two meetings; in one meeting it discussed the draft half-year report. The Bank's external auditors attended five meetings.

During its meetings, amongst other issues, the Risk Committee duly noted and discussed reports submitted by Internal Audit, the Compliance Officer, the Money Laundering Prevention Officer and the Head of the Legal Department. Discussions focused on the business and risk strategy, the credit risk strategy, the market risk strategy (which were also discussed by the plenary meeting of the Supervisory Board), the coronavirus crisis, current large-scale projects at the Bank – the new core banking system and the acquisition of Commerzbank's securities settlement business – as well as non-financial risks and IT resilience. At each meeting, individual loan exposures and the development in individual sectors were discussed and the creation of net loan impairment provision in the lending business was the subject of intense debate. Furthermore, in all meetings the Risk Committee received detailed reports on measures taken by the Bank to combat money laundering, and to prevent breaches of sanctions. Moreover, the Risk Committee carried out all regular tasks delegated to it by the Supervisory Board in the course of all Committee meetings.

Corporate governance

In its efficiency examination, the Supervisory Board concluded that, in view of the personal professional qualifications of individual members of its body, it had no concerns whatsoever regarding their suitability. The efficiency of the Supervisory Board was examined and determined by way of self-evaluation.

The information provided to the Supervisory Board satisfied all legal requirements and, in particular with regard to the depth of information provided on risks and the activities of selected business areas, exceeded the requirements of the 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, at Supervisory Board meetings. The Supervisory Board therefore concluded that it had carried out its business efficiently.

During the 2020 financial year, no conflicts of interest were detected 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's Audit Committee satisfied itself of the independence of the external auditors and the individual persons acting on their behalf.

Annual financial statements

The Supervisory Board has examined the annual financial statements of the Bank for the year ending 31 December 2020, as well as the 2020 Management Report and the proposal of the Management Board for the appropriation of profit, and gave approval in its meeting on 14 April 2021. The Annual General Meeting, held on 9 June 2020, appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC") as the auditors for the financial statements and consolidated financial statements. In its meeting on 9 June 2020, following the Annual General Meeting, the Supervisory Board commissioned the auditors to carry out the audit of the financial statements and the consolidated financial statements. The Auditors have audited the Bank's books, its annual financial statements and the Management Report for the year ending 31 December 2020, and have issued their unqualified audit opinion. The audit report was submitted to the Supervisory Board.

The consolidated financial statements for the year ended 31 December 2020 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (Handelsgesetzbuch – "HGB"). These financial statements were also audited by the auditor and given an unqualified opinion. Both the consolidated financial statements and the audit report were submitted to the Supervisory Board, and approved by it, in its meeting on 14 April 2021.

Relationships with affiliated enterprises

In accordance with section 312 of the AktG, the Management Board has prepared a report on the Bank's relationships with affiliated enterprises for the 2020 financial year. Pursuant to section 313 of the AktG, the auditor provided this report with the following audit opinion: "Having duly examined and assessed this report in accordance with professional standards, we confirm that (1) the report is free from factual misrepresentations, and (2) the company did not pay any excessive consideration with regard to the transactions identified in the report." The Supervisory Board duly noted and approved this report.

Personnel changes within the Supervisory Board

James Emmett left the Supervisory Board on 31 March 2020. The vacancy has been filled by Nuño Matos joining on 3 April 2020. Samir Assaf left the Supervisory Board as of 8 June 2020. Sandra Stuart has been appointed as a new member of the Supervisory Board with effect from 9 June 2020. Hans-Jörg Vetter left the Supervisory Board on 30 June 2020. The vacant position was filled by Dr Christiane Lindenschmidt joining as of 10 September 2020.

Andreas Schmitz resigned as Chairman of the Supervisory Board on 27 November 2020. Paul Hagen was elected as the new Chairman of the Supervisory Board on the same day. Andreas Schmitz also resigned as a member of the Supervisory Board with effect from the end of 31 December 2020.

Recognition

The Supervisory Board thanks the members of the Management Board for their open and trusting cooperation. We would also like to thank the employees, whose work under sometimes very difficult conditions and in a very challenging environment made a crucial contribution to the great success of the Bank in the past financial year.

Düsseldorf, April 2021

The Supervisory Board

Paul Hagen
Chairman

Supervisory Board

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

Voting members

Andreas Schmitz, Düsseldorf
(until 27 November 2020)
Former Chairman of the Management Board,
HSBC Trinkaus & Burkhardt AG

Paul Hagen, Düsseldorf
Chairman (since 27 November 2020)
Former member of the Management Board,
HSBC Trinkaus & Burkhardt AG

Jochen Schumacher*, Krefeld
Deputy Chairman
Bank employee

Samir Assaf
(until 8 June 2020)
Non-Executive Director
Chairman of Corporate & Institutional Banking
HSBC Holdings plc, London

Sigrid Betzen*, Meerbusch
Lawyer,
Managing Director,
German Association of Bank Employees

Anna Dimitrova, Düsseldorf
Chief Financial Officer & Director Strategy,
Vodafone GmbH

James Alasdair Emmett
(until 31 March 2020)
Former Group General Manager,
former Chief Executive Officer HSBC Europe
HSBC Bank plc, London

Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

Igor Ilievski*, Düsseldorf
Bank employee

Siglinde Klaußner**, Meerbusch
Independent Chairperson of the Employees' Council,
HSBC Transaction Services GmbH

Dr Christiane Lindenschmidt****
(since 10 September 2020)
Chief Digital and Data Officer
Member of Markets and Securities Services ExCo
HSBC Bank plc, London

Nuño Gonçalo de Macedo E Santana de Almeida Matos***,
(since 3 April 2020)
Group General Manager,
Chief Executive Officer HSBC Europe and HSBC Bank plc, London

Dr Eric Strutz, Berg

Sandra J. Stuart
(since 9 June 2020)
Former Group General Manager, President and CEO,
HSBC Canada, Vancouver

Carsten Thiem*, Düsseldorf
Bank employee

Hans-Jörg Vetter
(until 30 June 2020)
Former Chairman of the Management Board,
Landesbank Baden-Württemberg, Stuttgart

Marc Vogel*, Mülheim an der Ruhr
Bank employee

Daniela Weber-Rey, LL.M.
Lawyer, Frankfurt

Dr Oliver Wendt*, Cologne
Bank employee

Supervisory Board committees

Remuneration Committee

- Andreas Schmitz, Düsseldorf
(until 27 November 2020)
Former Chairman of the Management Board,
HSBC Trinkaus & Burkhardt AG

- Paul Hagen, Düsseldorf
Chairman (since 27 November 2020)
Former member of the Management Board,
HSBC Trinkaus & Burkhardt AG

- Samir Assaf
(until 8 June 2020)
Non-Executive Director
Chairman of Corporate & Institutional Banking
HSBC Holdings plc, London

- James Alasdair Emmett
(until 31 March 2020)
Former Group General Manager,
former Chief Executive Officer HSBC Europe
HSBC Bank plc, London

- Nuño Gonçalo de Macedo E Santana de Almeida Matos***,
(since 3 April 2020)
Group General Manager,
Chief Executive Officer HSBC Europe and HSBC Bank plc,
London

- Sandra J. Stuart
(since 9 June 2020)
Former Group General Manager, President and CEO
HSBC Canada, Vancouver

- Jochen Schumacher*, Krefeld
Bank employee

- Marc Vogel*, Mülheim an der Ruhr
Bank employee

Audit Committee

- Dr Eric Strutz, Berg
Chairman

- Paul Hagen, Düsseldorf
Former member of the Management Board,
HSBC Trinkaus & Burkhardt AG

- Daniela Weber-Rey, LL.M.
Lawyer, Frankfurt

- Dr Oliver Wendt*, Cologne
Bank employee

Deputy members:

- Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

- Andreas Schmitz, Düsseldorf
Former Chairman of the Management Board,
HSBC Trinkaus & Burkhardt AG

Risk Committee

- Dr Eric Strutz, Berg
Chairman

- Paul Hagen, Düsseldorf
Former member of the Management Board,
HSBC Trinkaus & Burkhardt AG

- Daniela Weber-Rey, LL.M.
Lawyer, Frankfurt

- Dr Oliver Wendt*, Cologne
Bank employee

Deputy members:

- Stefan Fuchs*, Düsseldorf
  Employee,
  HSBC Transaction Services GmbH

- Andreas Schmitz, Düsseldorf
  Former Chairman of the Management Board,
  HSBC Trinkaus & Burkhardt AG

Nomination Committee

- Andreas Schmitz, Düsseldorf
  (until 27 November 2020)
  Former Chairman of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- Paul Hagen, Düsseldorf
  Chairman (since 27 November 2020)
  Former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- Samir Assaf
  (until 8 June 2020)
  Non-Executive Director
  Chairman of Corporate & Institutional Banking
  HSBC Holdings plc, London

- James Alasdair Emmett
  (until 31 March 2020)
  Former Group General Manager,
  former Chief Executive Officer HSBC Europe
  HSBC Bank plc, London

- Nuño Gonçalo de Macedo E Santana de Almeida Matos***,
  (since 3 April 2020)
  Group General Manager,
  Chief Executive Officer HSBC Europe and HSBC Bank plc,
  London

- Dr Eric Strutz, Berg

- Sandra J. Stuart
  (since 9 June 2020)
  Former Group General Manager, President and CEO
  HSBC Canada, Vancouver

Mediation Committee

- Andreas Schmitz, Düsseldorf
  (until 27 November 2020)
  Former Chairman of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- Paul Hagen, Düsseldorf
  Chairman (since 27 November 2020)
  Former member of the Management Board,
  HSBC Trinkaus & Burkhardt AG

- James Alasdair Emmett
  (until 31 March 2020)
  Former Group General Manager,
  former Chief Executive Officer HSBC Europe
  HSBC Bank plc, London

- Igor Ilievski*, Düsseldorf
  Bank employee

- Nuño Gonçalo de Macedo E Santana de Almeida Matos***,
  (since 3 April 2020)
  Group General Manager,
  Chief Executive Officer HSBC Europe and HSBC Bank plc,
  London

- Jochen Schumacher*, Krefeld
  Bank employee

* elected by the employees
** appointed by way of court order by the Düsseldorf Local Court of 13 August 2019, adopted on 14 August 2019
*** appointed as a replacement by way of court order by the Düsseldorf Local Court of 1 April 2020, adopted on 3 April 2020
**** appointed as a replacement by way of court order by the Düsseldorf Local Court of 9 September 2020, adopted on 10 September 2020

Board of Directors

The Management Board and the Supervisory Board are supported by the Board of Directors in an advisory capacity.

Friedrich Merz
Chairman,
Lawyer

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

Dr Olaf Berlien
Chairman of the Management Board,
OSRAM Licht AG

Dr Guido Colsman
Managing Partner,
Pfeifer & Langen Industrie- und
Handels-KG

Heinrich Deichmann
Chairman of the Board of Directors
and Chief Executive Officer,
Deichmann SE

Dr Thomas Enders
Former Chief Executive Officer,
AIRBUS

Harald Epple
Chairman of the Management Board,
Gothaer Versicherungsbank VVaG

Heinrich Johann Essing
Managing Director,
HEC Vermögensverwaltung GmbH

Eckhard Forst
Chairman of the Management Board,
NRW.Bank

Bernd Franken
Managing Director,
Nordrheinische Ärzteversorgung,
Einrichtung der Ärztekammer Nordrhein

Robert Friedmann
Chairman of the Central Managing Board,
Würth-Gruppe

Prof. Dr Dr h.c. Clemens Fuest
President of the ifo Institute,
Leibniz-Institut für Wirtschaftsforschung
an der Universität München e.V.

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

Dr Hans Michael Gaul

Stephan Gemkow
Former Chairman of the Management Board,
Franz Haniel & Cie. GmbH

Wolfgang Haupt
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Bernd Hirsch
Chief Financial Officer,
Bertelsmann SE & Co. KGaA

Axel-Rainer Hoffmann
Member of the Management Board,
VOLKSWOHL BUND Versicherungen

Dr Olaf Huth
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Hartmut Jenner
Chairman/Chief Executive Officer (CEO),
Alfred Kärcher SE & Co. KG

Dr Karl-Ludwig Kley
Chairman of the Supervisory Board,
E.ON SE and Deutsche Lufthansa AG

Professor Dr Renate Köcher
Managing Director,
Institut für Demoskopie Allensbach

Andreas Körner
Managing Director,
Ärzteversorgung Niedersachsen

Franz-Josef Kortüm
Chairman of the Advisory Board
of the Brose Group

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

Ulrich Leitermann
CEO,
SIGNAL IDUNA Gruppe

Dipl.-Kfm. Thomas Löhning
Managing Director,
Versorgungswerk der Architektenkammer NRW

Professor Dr Jörg-Andreas Lohr
Managing Partner,
Lohr + Company GmbH Wirtschaftsprüfungsgesellschaft

Udo van Meeteren

Dr Markus Michalke
Managing Partner,
Alveus Beteiligungen GmbH

Hildegard Müller
President of the German Association of the Automotive Industry (VDA)

Dr Axel Nawrath
Former Chairman of the Management Board,
L-Bank

Isabella Pfaller
Member of the Management Board,
Versicherungskammer Bayern

Dr Sieghardt Rometsch
Former Spokesman of the Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

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

Peer Schatz
Managing Director,
PS Capital GmbH

Carola Schroeder
Member of the Management Board,
Barmenia Versicherungen

Professor Dr Klaus Schweinsberg
Centre for Strategy and Higher Leadership

Stephan Seifert
Chairman of the Management Board,
Körber AG

Peter Vinnemeier
Co-founder trivago N.V.
Managing Partner
Monkfish Equity GmbH

Professor Dr.-Ing. Dieter H. Vogel
Managing Director,
Cassiopeia GmbH

Dr Jürgen Voß
Chief Financial Officer,
NÜRNBERGER Beteiligungs-Aktiengesellschaft

Werner Wenning
Former Chairman of the Supervisory Board,
Bayer AG

Dr Andreas Wimmer
Chairman of the Board of Management
Allianz Lebensversicherungs-AG
Member of the Board of Management of Allianz
Deutschland AG

Ute Wolf
Chief Financial Officer,
Evonik Industries AG

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, 24 February 2021

Carola Gräfin v. Schmettow

Dr Rudolf Apenbrink

Fredun Mazaheri

Nicolo Salsano

Thomas Runge

Locations

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Interpretation and evaluation of statements about the future

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. The information is based on the consolidated figures at the close of the 2020 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our consolidated financial 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 2021. Such statements about the future can be found above all in the Letter from the Management Board to our shareholders in the 'Outlook and opportunities' section, in the section on our company's strategy as well as in many other places throughout this Annual Report.

These statements about the future are based on our assessments 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 2021 financial year 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.

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m

	2020	2019	2018	2017	2016
Total assets	**29,467.0**	**26,592.8**	**24,284.1**	**24,278.9**	**23,084.8**
Assets					
Cash reserve	10,454.4	5,731.5	3,750.5	3,679.3	1,107.3
Loans and advances to banks	1,567.5	1,987.0	1,460.7	858.0	1,255.9
Loans and advances to customers	8,516.8	10,866.5	10,749.8	9,348.9	8,457.9
Trading assets	2,639.0	2,801.9	2,876.7	3,702.1	4,462.3
Positive market values of derivative financial instruments	1,713.3	1,164.2	1,265.6	1,420.8	2,099.6
Other financial assets that must be measured at fair value through profit or loss	84.4	120.9	192.2	n/a	n/a
Financial assets	4,050.6	3,509.4	3,532.1	4,874.2	5,351.0
Property, plant and equipment	134.5	137.3	115.5	111.4	105.3
Intangible assets	77.8	86.3	69.2	29.6	12.5
Taxation recoverable	89.5	119.1	91.9	64.9	50.4
current	6.8	61.9	23.7	7.7	14.0
deferred	82.7	57.2	68.2	57.2	36.4
Other assets	66.5	68.7	179.9	189.7	182.6
Non-current assets held for sale	72.7	n/a	n/a	n/a	n/a
Liabilities					
Deposits by banks	4,303.6	2,608.1	3,318.9	2,916.4	1,786.2
Client accounts	18,131.6	17,650.8	14,861.4	14,591.7	13,668.7
Trading liabilities	1,902.8	1,793.8	1,825.9	2,365.2	2,326.7
Negative market values from derivative financial instruments	1,414.5	1,070.0	978.7	1,248.1	2,173.1
Provisions	166.3	128.9	167.5	177.1	173.2
Taxation	67.3	34.9	41.5	41.9	43.9
current	67.3	34.8	31.1	41.9	43.9
deferred	0.0	0.1	10.4	0.0	0.0
Other liabilities	355.5	266.4	247.0	246.8	235.3
Subordinated capital	530.9	551.3	580.5	395.3	437.7
Shareholders' equity	2,594.5	2,488.6	2,262.7	2,296.4	2,240.0
Income statement					
Net interest income	226.5	228.1	216.1	197.9	211.4
Net loan impairment provisions in the lending and securities business	83.7	45.1	–5.1	23.9	4.4
Net fee income	494.0	453.1	430.7	482.9	474.7
Net trading income	159.8	70.4	72.3	83.9	78.7
Net profit from other financial assets that must be measured at fair value through profit or loss	9.9	11.9	–14.0	n/a	n/a
Gains and losses from the disposal of financial assets measured at amortised cost	0.0	–0.9	0.0	n/a	n/a
Income from financial assets	18.8	10.3	17.8	53.2	24.9
Administrative expenses	646.4	618.9	573.5	559.2	567.9
Net other income	8.1	35.9	16.6	16.5	12.5
Pre-tax profit	187.0	144.8	171.1	251.3	229.9
Tax expenses	57.5	47.3	54.2	78.5	74.4
Net profit	129.5	97.5	116.9	172.8	155.5