REGISTRATION DOCUMENT

14 August 2007

HSBC Trinkaus & Burkhardt

Düsseldorf

This document (this "**Registration Document**") has been prepared for the purposes of providing the information disclosure on HSBC Trinkaus & Burkhardt AG (the "**Issuer**") required by Directive 2003/71/EC (the "**Prospectus Directive**") to be included (whether pursuant to § 11 or § 12 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) in connection with § 9 German Securities Prospectus Act, as applicable), in the registration document component of any prospectus of which this Registration Document forms part, submitted to the *Bundesanstalt für Finanzdienstleistungsaufsicht* ("**BaFin**") in connection with the issuance by the Issuer of bonds, notes, warrants, certificates and other securities of any description, which are non-equity securities (as defined in the Prospectus Directive) and in respect of which a prospectus is required to be published for the purposes of the Prospectus Directive as implemented in any jurisdiction.

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RISK FACTORS

As is the case with all companies existing under private law, there is a general risk of insolvency for the Issuer. The realisation of this risk would have the consequence that the Issuer would not be able to fulfill its payment obligations under any issued securities owed to the holders, and the holders would only be able to register their claims in accordance with the German Insolvency Code (*Insolvenzordnung*).

There is no protection against these risks by the deposit insurance fund of the Federal Association of German Banks (*Einlagensicherungsfonds des Bundesverbandes Deutscher Banken*) or by Entschädigungseinrichtung Deutsche Banken GmbH for any securities issued by the Issuer.

For these reasons, there is the risk for the investor in the case of insolvency of the Issuer that there will be a total loss of the capital expended for the acquisition of any securities issued by the Issuer (purchase price plus other costs associated with the purchase).

RESPONSIBILITY STATEMENT

HSBC Trinkaus & Burkhardt AG whose registered office is at Königsallee 21/23, 40212 Düsseldorf, Federal Republic of Germany is responsible for the content of this Registration Document pursuant to § 5 para 4 German Securities Prospectus Act (*Wertpapierprospektgesetz*) and hereby accordingly declares that the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and that no material circumstances have been omitted.

HSBC Trinkaus & Burkhardt AG hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Registration Document is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import.

General

This document is valid for the period of twelve months from the date of its publication and is to be read and construed with any prospectus which incorporates this document, where any such supplement relates to the content of this document. A copy of this Registration Document and each supplement hereto will be available free of charge during the life of this Registration Document, during normal business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf, Germany.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of its affiliates.

This Registration Document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or any other person that any recipient of this Registration Document should purchase any securities issued by the Issuer. Each investor contemplating purchasing securities issued by the Issuer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. No part of this Registration Document when read together with any prospectus which incorporates this document constitutes an offer to sell or the solicitation of an offer to buy any securities issued by the Issuer at any time or in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation at such time or in such jurisdiction.

Neither the delivery of this Registration Document nor any documentation relating to any securities issued by the Issuer (including without limitation any base prospectus or final terms for the purposes of the Prospectus Directive) nor the offering, sale or delivery of any such securities shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof, or that the information contained in the Registration Document is correct at any time subsequent to the date hereof or that any other written information delivered in connection herewith or therewith is correct as of any time subsequent to the date indicated in such document. Investors should review, inter alia, the most recent financial statements of the Issuer when evaluating any securities issued by the Issuer or an investment therein. However, the Issuer will always comply with the applicable statutory requirements to publish supplements in accordance with § 16 WpPG.

The distribution of this Registration Document and the offer or sale of securities issued by the Issuer by making reference to this Registration Document may be restricted by law in certain jurisdictions. Persons into whose possession this Registration Document or any securities issued by the Issuer come must inform themselves about, and observe, any such restrictions.

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Information relating to the Issuer

Statutory Auditors

Name and Address

The Issuer's auditor is KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Am Bonneshof 35, 40474 Düsseldorf, Tel. 0211/4757000 (the "**Auditor**"). The Auditor is a member of the German Chamber of Accountants (*Deutsche Wirtschaftsprüferkammer*) as well as a member of the Institute of Accountants (*Institut der Wirtschaftsprüfer* - "IDW").

Change

There has been no change in the auditors of the Issuer in recent years.

History and Development of the Issuer

Legal and Commercial Name of the Issuer

The legal name of the Issuer is HSBC Trinkaus & Burkhardt AG; the commercial name is HSBC Trinkaus & Burkhardt.

Registration of the Issuer in the Commercial Register

The Issuer was a result of converting the limited partnership (*Kommanditgesellschaft*) Trinkaus & Burkhardt to an association limited by shares (*Kommanditgesellschaft auf Aktien*) and was registered in the commercial register of the Local Court (*Amtsgericht*) Düsseldorf on 13 June 1985 under the number HRB 20 004. In a resolution of the shareholders meeting (*Hauptversammlung*) on 2 June 1999, the name was changed from "Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien" to "HSBC Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien"; the registration in the commercial register took place on 17 June 1999. In the regular shareholders meeting on 30 May 2006, the conversion of HSBC Trinkaus & Burkhardt KGaA into a stock corporation (*Aktiengesellschaft*, "AG") was resolved; the registration in the commercial register took place under number HRB 54447 on 31 July 2006.

Incorporation of the Issuer

The origins of the Issuer reach back to the wholesale trading business Christian Gottfried Jäger established in 1785 in Düsseldorf, which later became Bankhaus C. G. Trinkaus, as well as the bank Simon Hirschland established in Essen in 1841, the successor of which was Bankhaus Burkhardt & Co. The banks C. G. Trinkaus, Düsseldorf, and Burkhardt & Co., Essen, which had been conducted as limited partnerships (*Kommanditgesellschaften*), merged to form the limited partnership Trinkaus & Burkhardt in 1972.

Registered Office and Legal Form of the Issuer

The registered office of the Issuer is in Düsseldorf. There are branches in Baden-Baden, Berlin, Frankfurt am Main, Hamburg, Munich and Stuttgart. The Issuer is conducted in the form of a stock corporation (AG) and is primarily active within the German jurisdiction. The Issuer is represented in foreign countries by subsidiary institutions in Luxembourg, HSBC Trinkaus & Burkhardt (International) SA and HSBC Trinkaus Investment Manager SA, as well as in Hong Kong with HSBC Trinkaus Investment Management Ltd. The Issuer was established in Germany, and its registered office is located in Königsallee 21/23, 40212 Düsseldorf, Tel.: 0211/910-0.

Any recent Events particular to the Issuer which are to a material extent relevant to the Evaluation of the Issuer's Solvency

No such events are known.

Rating

Rating agencies such as, for example, the rating agency Fitch Rating Ltd., assess with the aid of a credit evaluation whether a potential borrower will be in a position in the future to comply with its loan obligations in accordance with the agreements. A material component for the classification of the credit worthiness (= rating) is the evaluation of the assets situation, the financial position and the earnings position of the company.

Categories of long term Fitch ratings:	*Categories of short term Fitch ratings:*
AAA	*F1*
AA	*F2*
A	*F3*
BBB	*B*
BB	*C*
B	*RD*
CCC	*D*
CC	
C	
RD	
D	

"+" or "-" symbols are attributed to a rating in order to describe its position within the main rating category.

The rating agency Fitch Rating Ltd. has set the long term rating of the Issuer at "AA-" and the short term rating at "F1". The outlook is stable.

The classification of the long term credit liabilities with "AA-" means that they have a very low credit risk with a tendency to having a low credit risk. The classification of the short term credit liabilities with "F1" means that the Issuer is in an excellent position to repay its short term credit liabilities. The outlook provides an indication about the direction in which the rating will likely develop over a period of one to two years.

The rating serves only as an aid for making a decision and should not constitute the basis for a decision to purchase or sell any securities issued by the Issuer.

Business Overview

Principal Activities

Principal activities of the Issuer

The Issuer provides qualified financial services for wealthy private clients, corporate clients and institutional clients. The main emphasis lies in the overall scope of services in securities transactions, interest rate and currency management as well as in foreign business and asset management.

The emphasis of the **private client business** lies in providing comprehensive advice and care for wealthy private investors, primarily on the basis of individual management agreements and authorisations.

The **corporate client business** of the Issuer is clearly focused on certain target groups. The Issuer provides a comprehensive range of qualified services or oriented towards the specific needs for the higher end mid-size enterprises which are often still under family management, as well as for international trading companies and large corporate groups. The basis of working together can often be found in the classic commercial business: Financing working capital and settlement of national or international payments. The emphasis and the increased value for the clients of the Issuer, however, lies in the broad spectrum of special services in the field of interest and currency management, in the securities business and also in corporate finance. In the own view of the Issuer, the global network of the HSBC group (consisting of HSBC Holdings plc, London and its subsidiaries, the "**HSBC Group**") in many parts of the world guarantees access to first class banking and finance services in transactions involving foreign countries.

The **foreign business**, a central field of business with a traditional high value, is concentrated in trade financing, settling payments abroad and business with documentary letters of credit. Protection against foreign risks as well as the financing and discounting of export receivables are offered in this field.

In the **business with institutional clients**, the Issuer differentiates the direct business (European Brokerage) and asset management for this client group. The brokerage business with institutional clients provides all services relating to German, European and Asian stocks as well as German and European bonds for professional clients. A further emphasis lies in the development and distribution of investment products which the Issuer considers to be intelligently structured.

The activities in **portfolio management** for institutional clients are concentrated in HSBC Investments Deutschland GmbH and based on fundamental, technical and quantitative research conducted by the Issuer itself and the HSBC Group. The Issuer is convinced that it has a clear dedication to quality in the various investment processes which is responsible for the good demand for the portfolio management service. HSBC Investments Deutschland GmbH sets up public investment funds and special investment funds, just as does the Luxembourg subsidiary, HSBC Trinkaus Investment Managers SA.

The Issuer's **activity as an issuer** in the field of structured securities such as warrants and certificates is at a high level, and this is reflected in the ongoing quantitative and qualitative growth of the offering of structured products.

The activities of the Issuer in the field of **primary market business** include providing advice and support for business companies, financial institutions and public authorities (*öffentliche Hand*) in connection with capital market transactions related to debt capital. In this regard, the Issuer as an integral part of the global capital market activities of the HSBC Group offers a comprehensive range of products, including public issues of debt, equity linked and other structured issues and private placement of certificated loans (*Schuldscheindarlehen*) and medium term notes.

The field of **corporate finance** includes, among other items, consulting services in the fields of mergers and acquisitions and privatisation as well as the capital markets business related to equity capital, especially changes in the holdings of stock packages, stock retirement, capital increases and initial public offerings.

The **trading** division includes all trading activities of the Issuer with securities, money and currencies. Stocks and stock derivatives, fixed interest securities and interest derivatives as well as currencies and currency options are traded for own account on stock exchange markets and markets outside of the stock exchanges. Considerable turnover is realized above all with certificated loans, stocks, options and structured products. The trade with money and currencies has a central position when it comes to managing the liquidity and foreign currency position of the Issuer. The business with lending securities and Repos supports, on the one hand, the satisfaction of obligations to deliver resulting from the trading field and, on the other hand, increasingly the liquidity management of the Issuer.

New Products and Activities

Not applicable.

Principal Markets

The main fields of activity of the Issuer listed above are primarily focused on the German market.

Basis for Statements on the competitive position

Not applicable.

Organisational Structure

Membership in a Corporate Group

The Issuer is a part of the HSBC Group, the top company of which is HSBC Holdings plc, London, which in turn holds indirectly 78.60 % of the shares in the Issuer.

The HSBC Group is, in its own opinion, one of the largest banking and financial services groups worldwide, having branches in Europe, in the Asia Pacific region, North America, Middle America and South America, the Middle East and Africa.

The stock of HSBC Holdings plc, London, is listed on the exchanges in London, Hong Kong, New York, Paris and the Bermudas.

The HSBC Group is involved with its international network particularly in general banking, corporate client business, investment banking and in serving private clients.

The Issuer has concluded cooperation and service agreements with various companies in the HSBC Group. The consolidated financial statements of the Issuer are incorporated into the consolidated financial statements of HSBC Holdings plc, London.

Dependency on other Members of the Group

The Issuer is part of the HSBC Group. The Issuer is directly dependent within the meaning of § 17 German Stock Corporations Act (*Aktiengesetz*, "AktG") on HSBC Germany Holdings GmbH, Düsseldorf, which holds 78.60% of the shares in the Issuer. The corporate purpose of HSBC Germany Holdings GmbH is the acquisition and administration of participations in German companies. At the present time, HSBC Germany Holdings GmbH only holds shares in the Issuer.

The sole shareholder of HSBC Germany Holdings GmbH is HSBC Bank plc, London. HSBC Bank plc conducts the operative banking business in Great Britain and is itself a 100% subsidiary of HSBC Holdings plc, the top company of the HSBC Group with its registered office in London.

Thus, the Issuer is an indirectly dependent enterprise within the meaning of § 17 AktG with regard to HSBC Holdings plc and HSBC Bank plc.

Among other provisions, the Issuer is subject to §§ 311 et seq. AktG.

Trend Information

Material Adverse Changes in the Prospects of the Issuer

There have been no material adverse changes in the prospects of the Issuer since the date of the last audited annual financial statements of the Issuer, 31 December 2006.

Information on any known Trends, Uncertainties, Demands, Commitments or Events that are reasonably likely to have a Material Effect on the Prospects of the Issuer for at least the current Financial Year

The Issuer is not aware of any such information.

Profit Forecasts or Estimates

No information.

Administrative, Management and Supervisory Bodies

Supervisory Board, Management Board

Members of the Supervisory Bodies

<u>The Supervisory Board</u>

The Supervisory Board consists of 15 members in accordance with the articles of association of the Issuer and pursuant to § 76 paragraph 1 of the Works Constitution Act (*Betriebsverfassungsgesetz*) 1952, of which ten members are representatives of the shareholders and five are representatives of the employees. Herbert H. Jacobi, formerly a personally liable partner of the Issuer, has been the honorary chairman of the Supervisory Board since 8 June 2004. All members of the Supervisory Board can be reached under the business address of the Issuer, Königsallee 21/23, 40212 Düsseldorf.

The members of the Supervisory Board are:

Herbert H. Jacobi, Düsseldorf
Honorary Chairman
formerly a personally liable partner
HSBC Trinkaus & Burkhardt KGaA
(now HSBC Trinkaus & Burkhardt AG)

Dr. Sieghardt Rometsch, Düsseldorf
Chairman (since 8 June 2004)
formerly a personally liable partner
HSBC Trinkaus & Burkhardt KGaA
(now HSBC Trinkaus & Burkhardt AG)

Mandates in supervisory boards:	APCOA Parking AG, Stuttgart (vice-chairman) Lanxess AG, Leverkusen Düsseldorf University Clinic, Düsseldorf HSBC Bank Polska S.A., Warsaw

Mandates in comparable control bodies:	HSBC Private Banking Holdings (Suisse) S.A., Geneva (Member of the Board) Management Partner GmbH, Stuttgart

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

Mandates in supervisory boards:	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (chairman) Aesculap Management AG, Tuttlingen Stihl AG, Waiblingen Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
Mandates in comparable control bodies:	Aesculap AG & Co. KG, Tuttlingen Stihl Holding AG & Co. KG, Waiblingen Carl-Zeiss-Stiftung, Heidenheim/Jena B. Braun Holding AG, Luzern/Switzerland B. Braun Medical AG, Luzern/ Switzerland B. Braun Medical Inc., Bethlehem, USA B. Braun Medical Industries Sdn.Bhd., Penang, Malaysia B. Braun Medical International S.L., Barcelona/Spain B. Braun Medical S.A., Barcelona/Spain B. Braun Surgical S.A., Barcelona/Spain B. Braun Milano S.p.A., Milan/Italy B. Braun of America Inc. Bethlehem/USA Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main / Erfurt Wilh. Werhahn KG, Neuss

Deniz Erkman*, Krefeld
Bank Employee

Charles Henri Filippi, Paris
Président Directeur Général
HSBC France S.A., Paris

Mandates in control bodies which are comparable to the Supervisory Board:	Member of the Board in the following companies: Altadis S.A., Madrid HSBC Bank plc, London HSBC Private Bank France S.A., Paris (Member of the Supervisory Board) HSBC Asset Management Holdings (France), Paris

* Representatives of the employees

Friedrich Karl Goßmann*, Essen
Bank Employee

Stuart Gulliver, London
Chief Executive Corporate,
Investment Banking and Markets,
Member of the Group Management Board
HSBC Holdings plc, London

Birgit Hasenbeck*, Düsseldorf
Bank Employee

Wolfgang Haupt, Düsseldorf
former personally liable partner
HSBC Trinkaus & Burkhardt KGaA
(now HSBC Trinkaus & Burkhardt AG)

Mandates in supervisory boards:	Pfleiderer AG, Neumarkt Trinkaus Private Equity Pool I GmbH & Co. KGaA, Düsseldorf (chairman) Trinkaus Private Equity M 3 GmbH & Co. KGaA, Düsseldorf (chairman) Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (chairman) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (chairman)

David H. Hodgkinson, London,
Group Chief Operating Officer
HSBC Holdings plc, London

Mandates in supervisory boards and comparable control bodies:	Member of Group Management Board, HSBC Holdings plc, London Member of the Board, HSBC Bank Middle East Limited, Dubai Member of the Board, HSBC Bank Egypt SAE, Kairo Member of the Board, The Saudi British Bank, Riyadh Member of the Board, Bank of Bermuda, Bermuda Member of the Board, HSBC Bank AE Turkey, Istanbul Member of the Board, Arabian Gulf Investment (Far East) Limited, Hongkong

* Representatives of the employees

Harold Hörauf, Eggstätt
former personally liable partner
HSBC Trinkaus & Burkhardt KGaA
(now HSBC Trinkaus & Burkhardt AG)

Mandates in supervisory boards:	Börse Düsseldorf AG, Düsseldorf (chairman) Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA (chairman) BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin

Oliver Honée*, Essen
Bank Employee

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

Mandates in supervisory boards:	LEG Landesentwicklungsgesellschaft Baden-Württemberg (chairman)
Mandates in comparable control bodies:	Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart DeKaBank Deutsche Girozentrale, Frankfurt am Main Landesbank Rheinland-Pfalz (chairman)

Dr. Otto Graf Lambsdorff, Bonn
Attorney

Mandates in supervisory boards:	Deutsche Lufthansa AG, Frankfurt am Main / Cologne Iveco Magirus AG, Ulm (chairman)

Prof. Dr. Ulrich Lehner, Düsseldorf
Chairman of the Management
Henkel KGaA

Mandates in supervisory boards:	E.ON AG, Düsseldorf
Mandates in comparable control bodies:	Ecolab Inc. St. Paul, USA (Member of the Board) Novartis AG, Basel, Switzerland The DIAL Company, Scottsdale, USA (Chairman of the Board)

Jörn Wölken*, Lohmar
Bank Employee

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* Representatives of the employees

The Supervisory Board can establish committees from among its members and set the tasks and authority for these committees. The authority of the Supervisory Board to make decisions can also be delegated to committees, to the extent permitted by law.

The shareholders meeting takes place in the first eight months of the fiscal year in Düsseldorf or at the location of another German stock exchange where the stock of the Company is admitted to trading. Each share grants one vote.

Members of the Management Board

The Management Board according to the Articles of Association of the Issuer consists of at least two members; aside from this, the Supervisory Board determines the number of members of the Management Board. At the present time, the members of the Management Board are:

Andreas Schmitz
Banker, Willich
Spokesman

Mandates in supervisory boards:	HSBC Investments Deutschland GmbH, Düsseldorf
Mandates in control bodies which are comparable to the supervisory board:	L-Bank, Karlsruhe

Paul Hagen
Banker, Düsseldorf

Mandates in supervisory boards:	International Transaction Services GmbH, Düsseldorf (chairman) Falke-Bank AG i. L., Düsseldorf Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Mandates in comparable control bodies:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (vice-chairman) HSBC Trinkaus Investment Managers SA, Luxembourg RWE Trading GmbH, Essen

Dr. Olaf Huth
Banker, Wermelskirchen

Mandates in supervisory boards:	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (vice-chairman) HSBC Investments Deutschland GmbH, Düsseldorf Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Mandates in control bodies which are comparable to the supervisory board:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (chairman) HSBC Trinkaus Investment Managers SA, Luxembourg (vice-chairman)

Carola Gräfin von Schmettow
Banker, Düsseldorf

Mandates in supervisory bodies:	HSBC Investments Deutschland GmbH, Düsseldorf (chairwoman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (chairwoman) DBV Winterthur Lebensversicherung, Wiesbaden
Mandates in comparable control bodies:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg HSBC Trinkaus Investment Managers SA, Luxembourg (chairwoman) Member of the Board of Directors: HSBC Investments (France) SA, Paris, France

The Issuer is represented under statute by two members of the Management Board or by a member of the Management Board acting jointly with an authorised representative (*Prokurist*). Various members of the Management Board have functions in supervisory boards and advisory boards of subsidiaries and have mandates in supervisory boards and advisory boards in companies outside of the corporate group within the scope permissible under the applicable statutory provisions. All members of the Management Board can be reached under the business address of the Issuer, Königsallee 21/23, 40212 Düsseldorf.

Potential Conflicts of Interests of Management and Supervisory Bodies as well as Senior Management

Pursuant to the provisions in the Corporate Governance Code of the Issuer, the members of the Management Board as well as the Supervisory Board are each required to personally disclose potential conflicts of interests. Such disclosure obligations exist for the members of senior management under the Compliance Guidelines of the Issuer.

The compliance with the Corporate Governance Code, including any potential conflicts of interest, is discussed annually in a joint meeting of the Supervisory Board and the Management Board. The Compliance Officer of the Issuer is responsible for monitoring situations in which potential conflicts of interest with the Issuer can arise under the Corporate Governance Code and the Compliance Guidelines. There are no potential conflicts of interest between the obligations of the members of the Supervisory Board, the Management Board and the members of senior management of the Issuer with regard to the Issuer and their private interests or other obligations.

Major Shareholders

Shareholdings

The share capital of the Issuer is currently € 70,000,000; it is divided into 26,100,000 bearer shares which are fully paid in.

HSBC Germany Holdings GmbH holds a direct participation in the share capital of the Issuer of 78.60%, and the Landesbank Baden Württemberg, Stuttgart, indirectly holds a participation of 20.31% through its 100% intermediate holding company, LBBW Banken-Holding GmbH. The sole shareholder in HSBC Germany Holdings GmbH is HSBC Bank plc, London, which conducts the operative banking business in Great Britain. HSBC Bank plc, in turn, is a 100% subsidiary of HSBC Holdings plc with its registered office in London. Thus, the Issuer is a directly dependent enterprise of HSBC Germany Holdings GmbH and an indirectly dependent enterprise of HSBC Holdings plc within the meaning of § 17 AktG.

There is no domination or profit and loss transfer agreement between the Issuer and HSBC Germany Holdings GmbH, Düsseldorf, or HSBC Bank plc, London, or HSBC Holdings plc, London.

13,500,000 shares in the share capital of the Issuer are admitted to trading and officially listed on the stock exchanges in Düsseldorf and Stuttgart. 12,600,000 shares held by the HSBC Group are not listed on the exchange.

Agreements with regard to possible Changes of Control

The Issuer is not aware of any agreements, the exercise of which could subsequently lead to a change in the control of the Issuer.

Financial Information concerning the Assets and Liabilities, Financial Position and Profits and Losses of the Issuer

Historical Financial Information

On this point, see Annex A annual financial statements and management report 2006 (individual financial statements) as well as Annex B fiscal year 2006 (consolidated financial statements) and Annex C fiscal year 2005 (consolidated financial statements) in which the historical financial information for the fiscal years 2005 and 2006 of the Issuer are stated.

Annual Financial Statements

In this regard, see Annex A annual financial statements and management report 2006 (individual financial statements) as well as Annex B fiscal year 2006 (consolidated financial statements) and Annex C fiscal year 2005 (consolidated financial statements) which contain the consolidated balance sheet, the consolidated profit and loss statement, the consolidated statement of changes in the equity capital, the consolidated cash-flow statement and the explanatory notes.

Auditing of the Historical Annual Financial Information

Statement on the audit of the historical annual financial information

The annual financial statements as of 31 December 2006 (individual financial statements) as well as the consolidated financial statements for the years 2006 and 2005 were certified by the auditor without any qualifications.

Statement of other information in the Registration Document which was audited by the auditor

Not applicable.

Other financial data

Not applicable.

Age of the latest Financial Information

The last audited financial information is not older than 18 months after the date of this Registration Document.

Interim and other Financial Information

Interim report (unaudited and not reviewed by the auditor)

In this regard, see Annex D interim report of the HSBC Trinkaus & Burkhardt Group as of 31 March 2007. The interim report of the Issuer has been neither audited nor reviewed by the auditor.

Legal and Arbitration Proceedings

No governmental interventions, legal proceedings or arbitration proceedings involving the Issuer have been pending in the last 12 months prior to or at the time of the preparation of this Registration Document. At the present time, no such proceedings are pending or, to the knowledge of the Issuer, threatened which could have a significant effect on the financial position or the profitability of the Issuer and/or the Group.

Significant Change in the Issuer's Financial Position

Since the end of the last financial period for which the interim report of the HSBC Trinkaus & Burkhardt Group as of 31 March 2007 was published, there have been no material changes in the financial position or the trading position of the Issuer.

Material Contracts

No material contracts are known which were concluded outside of the normal course of business and could lead to any member of the Group having an obligation or a right which would be of material importance for the ability of the Issuer to comply with its obligations towards the holders of securities issued by the Issuer with regard to such issued securities.

Third Party Information and Statement by Experts and Declarations of any Interest

Declarations or Reports by Experts

Not applicable.

Statements by Third Parties

Statements by the rating agency Fitch Rating Ltd. have been incorporated into this Registration Document. These statements are correctly reproduced. The Issuer is not aware and can also not discern from the information published by Fitch Rating Ltd. that facts have been omitted which would render the reproduced information incorrect or misleading. The Issuer has directly received the information from Fitch Rating Ltd.

SUMMARY FINANCIAL INFORMATION OF HSBC TRINKAUS & BURKHARDT AG

The following tables set forth financial information of the Issuer for the periods indicated.

The selected financial information is extracted from the audited consolidated balance sheet of the Issuer as of 31 December 2006 containing the financial figures for the year ended 31 December 2006 and the comparable figures for the year ended 31 December 2005 (with respect to the 2006 figures) and from the unaudited interim report of the Issuer as of 31 March 2007. The consolidated financial statements of the Issuer as of 31 December 2006 have been prepared in accordance with IFRS.

Extract from the audited consolidated balance sheet of the Issuer as of 31 December 2006:

Assets in € mio.	**31 Dec. 2006**	**31 Dec. 2005**	**Change**	
			in € mio.	**in %**
Cash reserves	436.3	798.6	- 362.3	- 45.4
Loans and advances to banks	5,531.3	4,561.9	969.4	21.2
Loans and advances to customers	3,245.4	2,554.0	691.4	27.1
Risk provisions for loans and advances	- 17.0	- 26.1	9.1	- 34.9
Financial assets held for trading	7,880.5	6,470.6	1,409.9	21.8
Financial assets	1,437.6	1,472.2	- 34.6	- 2.4
Shares in at-equity rated entities	1.5	0	1.5	100.0
Property and equipment	80.4	78.0	2.4	3.1
Intangible assets	9.3	7.9	1.4	17.7
Claims for income-based tax (*Ertragssteueransprüche*)	2.5	1.8	0.7	38.9
Claims for deferred income-based tax	2.5	1.4	1.1	78.6
Claims for currently assessed income-based tax	0.0	0.4	- 0.4	- 100.0
Other assets	68.6	29.2	39.4	> 100.0
Total assets	**18,676.4**	**15,948.1**	**2,728.3**	**17.1**

Liabilities in € mio.	**31 Dec. 2006**	**31 Dec. 2005**	**Change**	
			in € mio.	**in %**
Deposits by banks	1,702.5	1,424.7	277.8	19.5
Customer accounts	8,861.4	7,139.6	1,721.8	24.1
Securitized debt	29.8	34.6	- 4.8	- 13.9
Financial liabilities held for trading	6,476.8	5,883.9	592.9	10.1
Provisions	113.0	103.5	9.5	9.2

Liabilities in € mio.	**31 Dec. 2006**	**31 Dec. 2005**	**Change**	
			in € mio.	**in %**
Liabilities for income-based tax (*Ertragssteuerverpflichtungen*)	62.0	128.1	- 66.1	- 51.6
Liabilities for deferred income-based tax	25.7	80.7	- 55.0	- 68.2
Liabilities for currently assessed income-based tax	36.3	47.4	- 11.1	- 23.4
Other liabilities	105.4	91.0	14.4	15.8
Subordinated capital	440.6	308.1	132.5	43.0
Equity capital	884.9	834.6	50.3	6.0
Subscribed capital	70.0	70.0	0.0	0.0
Capital reserve	211.4	211.0	0.4	0.2
Retained earnings	481.8	430.9	50.9	11.8
Consolidated profit	121.7	122.7	- 1.0	- 0.8
Total liabilities	**18,676.4**	**15,948.1**	**2,728.3**	**17.1**

Extract from the unaudited interim report of the Issuer as of 31 March 2007:

Assets in € mio.	**31 Mar. 2007**	**31 Dec. 2006**	**Change in %**
Cash reserves	231.2	436.3	- 47.0
Loans and advances to banks	6,369.2	5,531.3	15.1
Loans and advances to customers	3,909.1	3,245.4	20.5
Risk provisions for loans and advances	- 15.5	- 17.0	- 8.8
Financial assets held for trading	7,298.5	7,880.5	- 7.4
Financial assets	1,429.6	1,437.6	- 0.6
Shares in at-equity rated entities	11.5	1.5	> 100
Property and equipment	79.4	80.4	- 1.2
Intangible assets	8.8	9.3	- 5.4
Claims for income-based tax (*Ertragssteueransprüche*)	25.9	2.5	> 100
Claims for deferred income-based tax	25.9	2.5	> 100
Claims for currently assessed income-based tax	0.0	0.0	0.0
Other assets	92.8	68.6	35.3
Total assets	**19,440.5**	**18,676.4**	**4.1**

Liabilities in € mio.	**31 Mar. 2007**	**31 Dec. 2006**	**Change in %**
Deposits by banks	2,441.7	1,702.5	43.4
Customer accounts	9,177.6	8,861.4	3.6
Securitized debt	30.0	29.8	0.7
Financial liabilities held for trading	6,095.0	6,476.8	- 5.9
Provisions	68.2	113.0	- 39.6
Liabilities for income-based tax (*Ertragssteuerverpflichtungen*)	99.8	62.0	61.0
Liabilities for deferred income-based tax	0.0	25.7	- 100
Liabilities for currently assessed income-based tax	99.8	36.3	> 100
Other liabilities	163.4	105.4	55.0
Subordinated capital	435.7	440.6	- 1.1

Liabilities in € mio.	31 Mar. 2007	31 Dec. 2006	Change in %
Equity capital	929.1	884.9	5.0
Subscribed capital	70.0	70.0	0.0
Capital reserve	211.7	211.4	0.1
Retained earnings	495.6	481.8	2.9
Consolidated balance sheet profit 2006	-	121.7	-
Profit 1 Jan. – 31 Mar.2007 profit carry forward	151.8	-	-
Total liabilities	**19,440.50**	**18,676.4**	**4.1**

DOCUMENTS ON DISPLAY

The following documents, or copies thereof, will be available for physical inspection during normal business hours on any weekday (Saturdays and public holidays excepted), free of charge, during the life of this Registration Document[†] at the registered office of HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf:

(a) This Registration Document and any supplement to a prospectus which incorporates this document, where any such supplement relates to the content of this document;

(b) the Articles of Association of the Issuer; and

(c) the historical financial information of the Issuer and its subsidiaries for both previous fiscal years prior to the publication of this Registration Document (consolidated financial statements 2006 according to IFRS, individual financial statements 2006 according to the German Commercial Code (*Handelsgesetzbuch*), consolidated financial statements 2005 according to IFRS), as well as the interim report as of 31 March 2007 which was not subject to an audit and was also not reviewed by an auditor.

[†] This document is valid for the period of twelve month from the date of its publication and is to be read and construed with any supplement to a prospectus which incorporates this document, where any such supplement relates to the content of this document.

ANNEX A

The Annual Financial Statements and Management Report 2006 (individual financial statements)

The Annual Financial Statements and Management Report 2006 (individual financial statements) are reproduced on the following pages and separately paginated (79 pages, from page A-2 through page A-80).

ANNEX A

Annual Financial Statements and Management Report 2006
HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt
Bank since 1785

Management Report

Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group includes 15 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt (International) SA Luxembourg,	**HSBC Trinkaus & Burkhardt Immobilien GmbH** Düsseldorf	**Grundstücksgesellschaft Trinkausstraße KG** Düsseldorf
HSBC Trinkaus Investment Managers SA Luxembourg	**HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH** Düsseldorf	**Joachim Hecker Grundbesitz KG** Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	**Gesellschaft für industrielle Participation and Finanzierungen mbH** Düsseldorf	**Dr. Helfer Verwaltungsgebäude Luxemburg KG** Düsseldorf
HSBC Investments Deutschland GmbH Düsseldorf	**HSBC Trinkaus Family Office GmbH** Düsseldorf	
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	**HSBC Trinkaus Private Wealth GmbH** Düsseldorf	
International Transaction Services GmbH* Düsseldorf		

* Consolidated at-equity

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

The Group is managed as a single entity by the Managing Board of HSBC Trinkaus & Burkhardt AG. Supervisory or advisory boards supervise the managing directors of the individual companies.

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

In compliance with Section 312 AktG, the Managing Board prepared a report on the Bank's relationships with affiliated companies (*Abhängigkeitsbericht*) for the 2006 financial year.

This report concludes: "The bank received adequate consideration for all transactions listed in the report on relationships with affiliated companies. This assessment is based on the circumstances that we were aware of at the time when the processes that must be reported occurred. No measures were performed or omitted to the disadvantage of the bank at the request of or in the interests of HSBC Holdings plc or an affiliated company of HSBC Holdings plc".

Company Constitution

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

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

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

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

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

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

Main Principles of the Remuneration Systems of the Bodies

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

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

Individual information on the level and composition of the payments to the Members of the Managing Board during financial year 2006 can be found in the notes.

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

Until the change in legal form, the following regulation on compensation applied: Each member will receive, in addition to compensation for the expenses incurred (including VAT), a fixed annual payment of €3,000 and an additional payment of € 1000 for each 5 cents of dividends per share in excess of 10 cents. The Chairman of the Supervisory Board will receive double the stated amounts, the deputy chairman will receive one and a half times the stated amounts. The members of Supervisory Board committees will not receive any separate compensation.

Information on the level of payments to members of the Supervisory Board during financial year 2006 can be found in the notes.

The Business Divisions

Irrespective of their collective responsibility, all of the members of the Managing Board are also assigned individual responsibility for specific business areas and head office functions. In the extended management group, the members of the Managing Board are assisted by Mr. Manfred Krause as a member of group executive management. The assignment of responsibilities applies not only to the AG and its branches, but also to the business divisions of subsidiaries.

Executive Management

Central Functions A

Andreas Schmitz

Managing Board (spokesman)

HSBC association

Executive Management Secretary

Compliance/Money Laundering

Auditing

Press and publicity Work/marketing

Central event management

Central Functions B

Paul Hagen

Managing Board

Staff

Accounting

Controlling

Market Risk Control

Division I

Dr. Olaf Huth

Managing Board

Private

Banking

Division II

Andreas Schmitz

Managing Board

Corporate Banking

International Business

Corporate Finance

Primary Markets

Consortium and Issue Business

Manfred Krause

Group executive management
t
Corporate Banking

International Business

Division III

Carola Gräfin von Schmettow

Managing Board

Institutional

Clients

Asset Management

Division IV

Carola Gräfin von Schmettow

Managing Board

Proprietary Trading

Treasury

Treasury Management Group

Division V

Paul Hagen

Managing Board

Credit

Operations

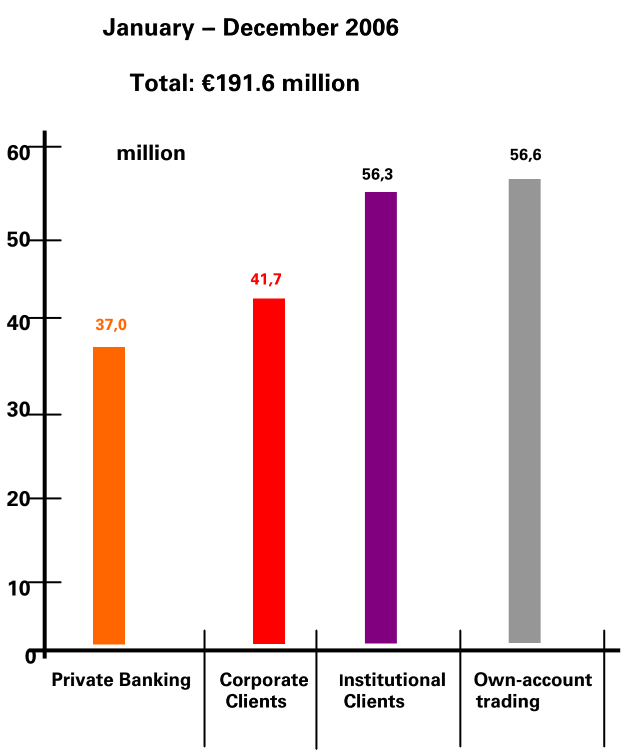
Business Process Development

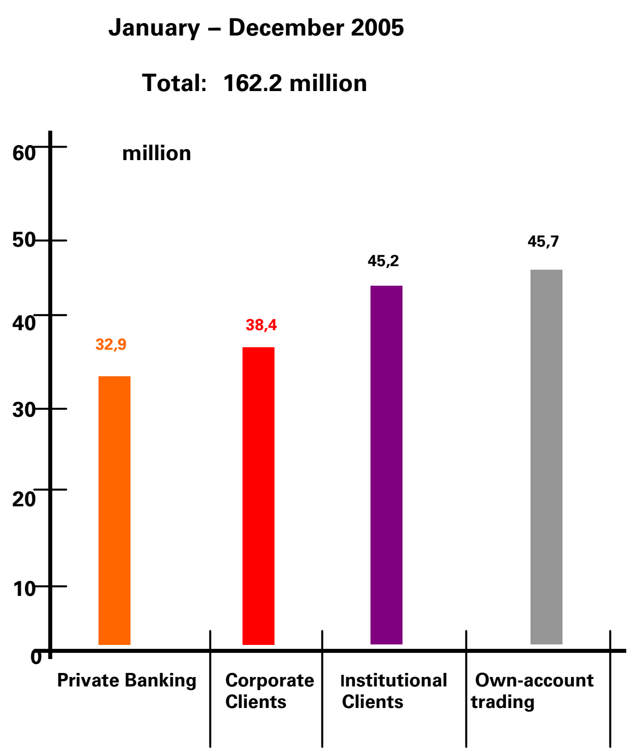
Information Technology

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

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

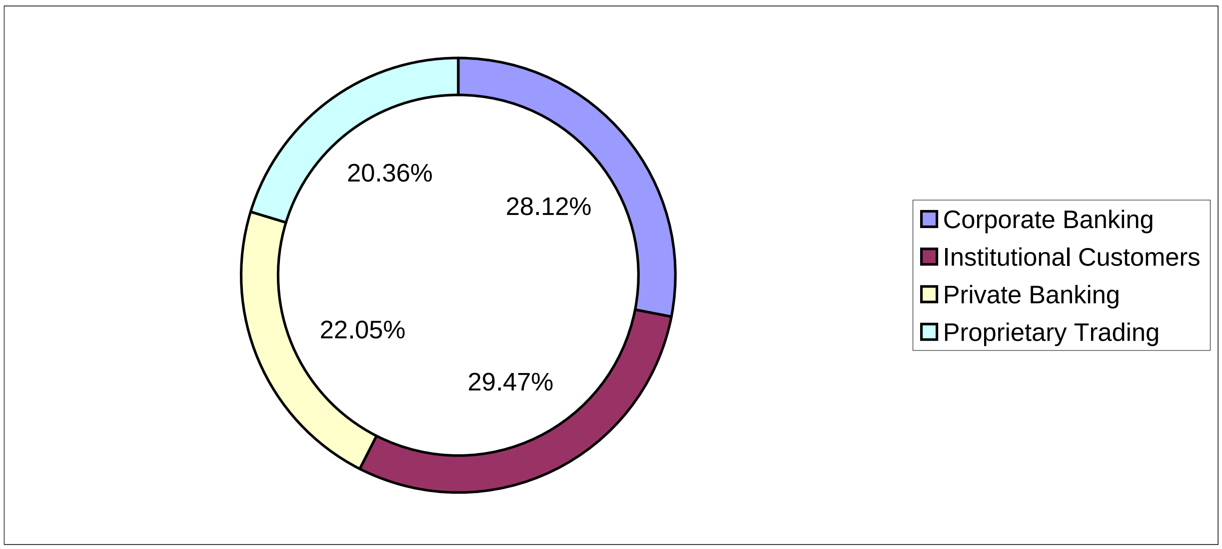
Contributions to profit





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

Five-year average profit contributions



Strategic Direction

A particular feature of the German banking market remains increased penetration of the market by foreign banks. This is particularly relevant to the Bank's target groups of customers. Increased demand among German customers for international banking products is favourable to this development. Some of the larger German banks, encouraged by lower write-downs and improved trading results, but still handicapped by the fact that they are not international organisations and also by a lack of capital power, are meeting this challenge in a traditional manner, by increasing volumes or cutting margins or side-stepping into the poor credit sector. In the short to medium term, this may appear to be sustainable due to of the improved economic outlook, in the long term however there is the risk that crises such as those seen in 2002/2003 may repeat themselves.

Despite the initial signs, the process of concentration that the German market has been longing for over the past few decades is still not underway. It is questionable whether the situation relating to Landesbank Berlin will lead to a change in the "three pillar" system. Nevertheless, the concentration process will change both national and international competition on the financial markets for good. An ever-more differentiated range of financing and investment alter-natives is extending the spectrum of financial services and the profile of the financial profession. New technologies are also creating new products and distribution channels but at the same time markets are becoming more transparent, eroding the information lead enjoyed by individual market participants. The size of the transactions to be executed is also steadily increasing.

We at HSBC Trinkaus & Burkhardt have recognised this development and adapted to it at an early stage. With a view to the growth in the market for banking services into a new global dimension and as a result of our efforts to take on the position of a core bank for our important corporate and institutional clients, we altered the Bank's legal form a from a partnership limited by shares (*Kommanditgesellschaft auf Aktien* –KGaA) to that of a German stock corporation (*Aktiengesellschaft* – AG) effective as of the entry in the commercial register dated 31 July 2006. This step is on the one hand a clear vote of approval from the employees and the management of HSBC Trinkaus & Burkhardt for the majority shareholder HSBC and on the other signals HSBC's commitment to HSBC Trinkaus & Burkhardt as the Group member responsible for the German market. After five months in this new form, we can confirm that this step has been well received by the market and our customers.

We shall continue to combine the "best of both worlds" for our clients in the new structure as well, namely he continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. In the coming years, we will aim to actively make this unique combination in the German banking environment more visible and more of a tangible benefit, both for our current and prospective customers.

We focus on offering selected clients not only the full range of traditional banking services, but also sophisticated financial services as solutions to complex problems, on both a national and international level. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. In the area of complex financial derivatives and in the consultancy business (M&A) we are systematically developing sensible innovations and solutions for use by our customers. We also ensure the most advanced banking technology and services of the highest quality by continuously updating our information and communication system.

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

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

- We continually analyse our activities in order to gear them towards meeting the national and international needs of our existing and future clients in an optimal way. Our decisions are made with the focus on our customers and we attach a high level of importance to continuity of personnel in supporting our customers

.

- Financial innovation is our strength, because the application of our wide-ranging expertise is the only way to successfully deliver value-added banking. At the same time, it also appears necessary to emphasise flexible, service-oriented processing of standard transactions.

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

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

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

- We must systematically exploit the global network, regional connections and local expertise of the HSBC Group for the benefit of our customers, without accepting any reduction in our aims with regard to the right of our customers to the individualized support concept of a private bank.

- On the basis of our long-term, trust-based relationships with customers, we must seek out and develop useful solutions within the range of financial services, which is continually increasing in complexity.

- We must ensure that a technologically efficient system infrastructure is in place. It must fulfil the most demanding requirements throughout the entire value-creation chain. Our services must be both reasonably priced and customer-friendly.

- We must invest in the training of our employees by means of targeted education and training at an international level.

- We must record the individual or team performances of our employees in a reliable way by means of a precise management information system, in order to be able to compensate them in the fairest possible way and in line with the market.

We are convinced that this strategy, and of course also the new legal form, provide a sound basis for an economically successful future, despite the frequent upheavals in the German financial markets.

Financial year 2006

The Economic Environment

The global economy grew at a steady rate of over 4% for the fourth year in succession in 2006. In the eurozone and Germany, the economy improved beyond the expectations of many. The German economy grew by 2.7%, while the acceleration in prices slowed down at 1.7%. As a result of the economic revival, employment figures were noticeably higher in 2006, and the average number of unemployed for the year fell by around 374,000.

During the course of the year, the ECB increased base interest rates in five steps from 2.25% to 3.50%. In contrast, the Federal Reserve ended its tougher monetary policy in June 2006, when it increased its base interest rates to 5.25%.

At the end of 2006, the yield for ten-year government bond in the USA was 4.70% and 3.90% in the eurozone. 2006 saw positive development for the euro. By the end of the year it had reached a price of US $1.32 in comparison to US$ 1.18 at the end of 2005.

Positive stock market development continued in 2006. The quotation of the German share index, DAX, ranged between 5,292 and 6,140 points in the first half of 2006 and between 5,397 and 6,612 points in the second half. Compared with the status at the end of 2005, growth of 22% was achieved.

Profitability

Despite very successful business development, in accordance with HGB, the net profit from ordinary activities decreased by 14.9% to €174.9 million.

The net income for the year experienced less of a decline because of the lower taxation expense, falling 10.1% to €111.3 million.

We have significantly improved results in all business divisions. Proprietary trading was also exceedingly successful, because it was able to benefit both from the market trends and the high transaction figures in customer business. Nevertheless, there is a significant decline in net profit from financial transactions in the financial reporting in accordance with HGB, as a result of the fact that there was a high level of realisation of measurement gains.

The clear focus of our strategic direction on selected customer groups, however, we again did succeed in continuing to grow and doing so in a profitable manner, despite significant investment in employees and systems.

The success of financial year 2006 is based mainly on three factors:
- Consistent implementation of our strategic direction
- Intensive cooperation with HSBC
- A favourable capital market environment

The implementation of the strategic direction has led to the acquisition of new contacts with target customers in all customer segments and has also extended existing customer relationships. As a result, our growth outperformed that of the market. In proprietary trading, we are increasingly concentrating on trade in equities and equity derivatives, while we are also increasingly relying on the HSBC global trading books both for currency and interest trading.

Our close cooperation with HSBC enables us to combine the "best of both worlds": the continuity, professionalism and individuality of private banks and at the same time, the international capability of a global financial services provider. The partnership extends to numerous business areas, although the extent varies according to the needs of our customers.

We were able to exploit the positive development of the stock markets both in Germany and Europe and also worldwide first of all to achieve extraordinarily high profits in trade with equities and equities derivatives. Secondly, this market environment resulted in very high transaction figures among our customers, which led to an increase in commission income in all customer segments.

The Institutional Clients division in particular benefited from this. The individual items in the profit and loss account developed as follows:
Interest income rose by 25.5% to €115.3 million, as a result of another significant increase in receivables and liabilities, despite sustained pressure on the interest margin. Interest income from securities in liquidity reserves are experiencing a decline as a result of lower balances, while the expansion of the trading portfolio results in significantly higher interest income.

Net commission income increased by 3.7% to €199.0 million. Commission income rose by 18.6% to €344.3 million, while commission expense increased by 47.8% to €145.3 million. The over-proportional increase in commission expenses is mainly a result of the fact that securities processing through International Transaction Services GmbH (ITS) only began in August. Up to that time, the expenses of securities processing were for the most part entered under administrative expenses for the bank, while the earnings from business with other clients increased commission income.

Net income from financial transactions decreased by 43.4% to €38.7 million. This value in accordance with HGB is significantly affected by the imparity and realisation principle, but is of no economic significance. This is all the more true if it is taken into account that the interest and dividend income from trading activities, as well as the corresponding refinancing expenses are not included in this item in accordance with HGB. Under IFRS, on the other hand, the trading result reached a new record level. We were particularly successful in the marketing of retail products under our brand HSBC Trinkaus Investment Products (www.hsbc-tip.de). In addition, we were benefiting from the positive situation on the European bond and stock markets, as well as from the remarkable performance of the Euro against the US Dollar.

In the previous year, other operating income included capital gains from the sale of licences to the securities processing system GEOS. Because there were no special effects to be reported this year, other operating income is down 64.4% at €12.1 million.

Overall, general administrative costs increased by 9.0% to €265.3 million. Staff costs increased by 8.3% to €175.6 million, while other administrative expenses increased by 10.6% to €89.7 million. As a result of the transfer of securities processing to ITS in 2005, the increase in administrative expense, in particular staff costs, has weakened. The disposal of the licence for the securities processing system GEOS to ITS in the previous year resulted in a 18.4% decrease in amortisation and depreciation to €7.5 million.

Overall, there is a cost/income ratio (excluding risk costs and income from profit transfer agreements) of 67.5% after 60.2% in 2005. The previous year can only be used for comparison to a limited extent, because of the special effects mentioned. In our view, a range of 65% to 70% is adequate for the cost/income ratio in our business model as a universal bank with a wide range of products for our customers.

In cross-compensation, expenses for credit business and expenses and income from securities in the liquidity reserve both declined slightly. In contrast, income from the retransfer of write-downs and provisions decreased significantly. On balance, income in cross-compensation decreased by 62.6% to €4.4 million.

Income from profit transfer agreements rose 34.4% to €47.8 million, mainly because of the improved result from HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen. HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen benefited in particular from an advance dividend from Luxembourg in addition to the annual dividend.

Income taxes decreased as a result of the lower result from ordinary activities from €81.8 million to €62.6 million. This corresponds to a tax rate of 35.8%, in comparison with 39.8% in the previous year.

Financial Situation

The balance sheet total grew significantly again in the year under review by 12.6% to €15.4 billion. With regard to assets, the increase in bonds and other fixed interest securities of more than 100% to €4.6 billion is significant. Loans and advances to customers also underwent a strong increase year-on-year of 21.2% to €3.6 billion, while loans and advances to banks decreased slightly by 8.2% to €4.6 billion. Furthermore, shares and other variable-yield securities rose by 8.0% to €1.5 billion and other assets increased by 81.4% to €0.4 billion. In contrast, balances with the Deutsche Bundesbank decreased significantly by 45.5% to €0.4 billion, which was balance sheet date-related.

On the liabilities side, in comparison with the previous year, client accounts again increased strongly, by 21 % to €8.0 billion. Securitized debt continued its strong expansion by means of an increasing number of structured issues, growing by 34.2% from €2.4 billion to €3.2 billion. In addition, deposits by banks increased by 6.1% to €1.9 billion and other liabilities by 55.0% to €0.8 billion.

The increasing number of customer contacts in our corporate client business is accompanied in particular by growth in our credit portfolio. This can be seen particularly in the growth of loans and advances to customers. The very high level of customer deposits results from a continued strong inflow of funds from wealthy private clients and investment funds. On the other hand, the changes in loans and advances to banks and deposits by banks mainly relate to balance sheet date effects.

The trading departments are directly responsible for the issue and placement of discount certificates and warrants, as well as of structured promissory note loans and bonds. The high level of cash inflow in this area corresponds to the increase in bonds and other fixed-interest securities. The increase in equities and other variable yield securities corresponds to the further expansion of trading activities in these products The increase in other assets results essentially from higher option premiums in proprietary trading. This corresponds with the increase in option premiums under other liabilities, which have also risen as a result of significantly higher liabilities for short sales.

Provisions were again formed predominantly for covering obligations from operational retirement pensions and for income taxes.

Financial Position

As of the balance sheet date, in accordance with the *Kreditwesengesetz* (KWG - German Banking Act) we achieved an equity capital ratio of 13.3% and a core capital ratio of 7.5%. Regulatory requirements were thereby significantly exceeded again. 2006 saw a significant increase in risk assets and a moderate increase in market risk positions according to the KWG. There was also a significant increase in regulatory equity capital to €1.0 billion. This is due mainly to the fact that firstly €70.0 million of the net income for 2005 was assigned to retained earnings by the Annual General Meeting of 2006. Secondly, the Managing Board made use of its authorisation to issue profit participation certificates in the second half of 2006 by issuing registered profit participation certificates with a total nominal value of €100.0 million. In addition, maturing subordinated liabilities were completely replaced and, in view of the favourable market conditions, increased by a further €32.2 million.

Liquidity at the Bank also remains good. Regulatory requirements were significantly exceeded throughout the year. During the year under review, the key liquidity ratio in accordance with Principle II was at 1.71 for the average of the end-of-month positions.

Outlook

In 2007, the global economy will loose some of the impetus from the previous years. Particularly in the USA, problems in the real estate market could lead to a significant decrease in growth. It is anticipated that the eurozone will see growth of around 2.0% in production potential. We must expect to see a further devaluation of the US dollar and an increasing euro/US dollar exchange rate again this year. After the ECB increased base interest rates last year in five steps, we expect the increases to come to an end in 2007, although the bond markets are burdened nevertheless.

Germany is expected to prove to be the linchpin of the European economy again, as it was in 2006. German companies' solid appraisal of the situation and the improvements in the job market highlight the fact that competitiveness has been regained over the past few years. Economic growth of more than 2.0% may be achieved in Germany, depending on the strength of upward movement in private consumption. The outlook for German banks in 2007 is therefore stable. We are convinced that HSBC Trinkaus & Burkhardt will be able to successfully hold its ground in this environment.

In 2006, we were able to exploit the better than forecast opportunities for our Bank. We want to expand our business volume in the German market on the basis of our consistent strategic direction and intensive cooperation with the HSBC Group. The steady expansion of our market position in the three client segments Private Banking, Corporate Banking and Institutional Clients has broadened the basis of our business. It is now a matter of intensifying our new business relationships and establishing HSBC Trinkaus & Burkhardt as a core bank for an increasingly large number of customers.

The successful financial year 2006, in which we significantly exceeded our forecasts, is a very high starting basis, in particularly because we were able to record significant double-digit growth in operating results. Nevertheless, we are pursuing the goal of further increasing our operating result further in 2007. This is subject to the continuation of the trend towards higher securities turnover on the stock markets seen last year as well as continued strong demand for structured products in the bond business. We see good opportunity here. The credit risk costs which made a positive contribution to the operating profit in 2006 as a result of the release of risk provisions for individual large commitments should be in the single-digit million region. We will continue to keep a close eye on administrative expenses, but are prepared to carry our further investments in order to expand our market shares in the target client segments in the long term and offer further special services.

In our view, based on the operating profit, a range of 65% to 70% is adequate for the cost/income ratio in our business model as a universal bank with a wide range of products for our customers. All in all, we are pursuing the goal of high single-digit percentage growth in our operating profit, and the same applies to profit after taxes.

We are expecting increasing operating profits from all business segments. The assets under management in our Private Banking business have increased significantly as a result of the inflows of capital over the past few years and the good performance forming a solid base for the further expansion of the business. We will continue to broaden our product offer, although in order to do this, we will need additional qualified employees in order to push forward with steady growth. The performance of important asset categories will presumably require the greater use of structured products in 2007 in order to realise optimum risk-return profiles for the portfolio. Asset diversification will continue to be of major importance. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident of a further substantial increase in both volumes under management and in the earnings contribution in our Private Banking segment. We are open to acquisitions in this client segment.

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

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

We see further growth in demand for our asset management services. Our subsidiary HSBC Investments Deutschland has benefited and will continue to benefit from the greater use by institutional clients of mutual funds geared especially to their requirements. The successful global product cooperation with other HSBC companies in the area of global asset management services results in a significant expansion of the product range, in particular also for investments in countries that display particularly dynamic growth. The success of our subsidiary Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for funds administration will continue. A volume of more than €50.0 billion in fund management creates economies of scale in competition. In addition, we will significantly expand our capabilities as a global custodian through more intensive cooperation with HSBC Securities Services. The success with acquisitions in 2006 makes us optimistic with regard to all three services - portfolio management, the master capital Investment Company and global custody. We are also ready to make acquisitions in all three lines of business.

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

We have reorganised our trading activities in the wake of the further progress made with integrating HSBC Trinkaus & Burkhardt into the HSBC Group. The interest and foreign exchange trading books have been geared exclusively to supporting client activities and we are benefiting from the liquidity of the HSBC Group trading books. We expect that the resulting declines in proprietary trading income can be more than compensated by the increased volume of client transactions. Equity trading and the equity derivatives activities will be expanded further on the other hand in the wake of the division of labour. New Products are expected to support our HSBC Trinkaus Investment Products sales initiative in future. Overall, growth in revenues from proprietary trading is more dependent than previously on the performance of the European stock markets because of this focus. The very high trading result for the year 2006 will only be exceeded if the basic conditions are favourable.

The investments in IT systems will be continued to the extent planned in 2007 in order to realise further increases in efficiency in different areas of the Bank. These will be accompanied by adjustments which are necessary to effectively support integration into the HSBC Group. The projects started, in particular the preparation for Basel II, the introduction of a new reporting system and system-related separation of the securities settlement system will require considerable resources over the whole of 2007. We have planned the targeted recruitment of additional employees in order to be able to realise the growth planned in our client business. We also require additional employees in the internal departments of the Bank in order to maintain high processing quality of the increased volume. The Bank’s regulatory costs, which are already high, will increase further. Meeting the requirements of the Sarbanes-Oxley Act (SOX) and the Markets in Financial Instruments Directive (MiFiD) will contribute to this. Overall we are expecting an increase in administrative expenses in the high single-digit percentage region for 2007.

Following the further issue of new profit participating certificates and after the planned reinvestment of net income, the Bank’s capital position has improved further and makes further expansion of our business activities possible. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business.

Risk Management

Risk management policy

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

In accordance with our risk management policy, we are ready to actively take into market and counterparty risk. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the bank has taken out adequate insurance. We exclude reputation and liquidity risks as far as possible and thereby also accept lower incomes.

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

Risk management organisation

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

-the Credit Committee for counterparty risks,

-the Asset and Liability Management Committee for market and liquidity risks, and

-the Operational Risks Committee for operational and risks, including legal risks and reputational risks.

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

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

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

Strategic risk

By strategic risk we mean possible changes in the market environment and in the Bank's efficiency, which could have an adverse effect on earning power in the medium term. Such risks primarily result from the focus of the business policy. HSBC Trinkaus & Burkhardt is particularly exposed to such risks primarily because there is strong competition for our clients in the market owing to their major significance.

The Bank's strategic orientation involves the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, foreign exchange and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients, can only counteract this risk to a limited extent. Thanks to our stronger integration into the HSBC Group, we can counteract this risk in a targeted way through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

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

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

In 2006, we fundamentally reviewed and improved reporting for our customers on the basis of a new portfolio management system. Subsequently, in 2006, we initiated a project for the integration of order routing into the portfolio management system. In the project for the automation of statutory reporting in the area of finance, we were able to make further significant progress. In 2007, this project will lead to the implementation of the calculation of equity capital requirements in accordance with Basel II. This involves considerable costs for the introductory work and future license fees.

2007 will also see the implementation of the EU Financial Markets Directive. Significant details are expected to be announced initially in the first half of the year by means of regulations by the German Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin).The rules must be implemented in a very short period of time, by 1 November 2007. All in all, we are extremely concerned about the fact that the regulatory costs for the bank will continue to rise significantly. These costs have therefore now taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. We are sceptical as to whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for banks.

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

Counterparty risk

Counterparty risk may be subdivided into credit and counterparty risk on the one hand and sovereign risk on the other. By counterparty risk we mean the risk of the partial or complete default by a contractual partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as sovereign risk. In identifying counterparty risk, the Bank takes into account the risks arising from balance sheet assets, for example, not only traditional bank loans, but also equity and bond portfolios, from its guarantee, documentary credit business, as well as from its dealings in derivative products. Purchase risks, especially those arising from securities, foreign exchange and payments transactions, are also included.

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

In line with our clients' needs, before a loan is approved we examine the various options available for structuring a credit facility. These include, for example, syndications and loan securitisation using promissory note loans, or the issue of bonds. Furthermore, netting agreements or agreements over the backing of market values are entered into, especially in the case of derivative transactions. Where appropriate, for example in the case of long-term financing or pure securities market loans, collateral is generally taken. The valuation of collateral is regularly reviewed.

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

The minimum requirements for the credit business of financial institutions laid down by the BaFin in December 2005 are consequently complied with. The Bank's Managing Board has duly delegated loan approval authority, in accordance with the statutory provisions, in relation to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

The Bank's Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. The credit risk strategy approved by the credit committee of the Supervisory Board provides a framework for such decisions. In the light of the recommendations on equity capital of the Basel Capital Accord, the Bank introduced a new 22-stage internal rating system in 2005 for its credit business for the classification of the credit quality of its customers in the area of corporate and institutional customers (see section on Basel II). In order to calculate the internal rating, the Bank uses four ratings systems that cover the customer groups of international corporations, German medium-sized companies, banks and financial services providers. These systems are already in use for the classification of risk parallel to the previous seven-stage system until they are accepted by the supervisory authorities and their details are undergoing constant improvement. The internal rating provides a basis for credit decisions and is supplemented by the expert knowledge of the analysts and any security agreements. The rating system for medium-sized German companies was developed independently by the Bank. It is based on a statistical component for the assessment of the economic situation of the borrower with reference to his or her financial information, which is developed using internal customer data.

This is supplemented by an expert system that evaluates the quality of the customer and his or her economic environment. The system is completed by a set of regulations on the recognition of contingent liabilities within corporate groups. The selectivity of the statistical model has been proven on the basis of an external data record of German companies with very good results. The rating system for large international corporations, banks and financial providers was assumed by the Bank from HSBC Group after an internal inspection into its suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the Group for these internationally focused portfolios.

In addition to the statistical analysis of financial data and an analysis of the sector and sovereign risk, all HSBC rating systems include a qualitative assessment of the company and its economic environment, which is created by customer representatives in Germany in collaboration with the local credit experts. The probability of default for each borrower can be derived from the creditworthiness classes. On this basis, the expected loss for the individual credit commitments is estimated taking into account collateral and other agreements. For credit commitments with a high risk of default, a risk provision is formed. In order to calculate this provision, the future payments from credit and if necessary from the realization of security is estimated over a period of time so that the cash value of these payments can be compared with the book value of the credit commitment. The risk provision thereby covers the shortfall calculated in this way entirely.

Each credit risk must be assessed annually, or more frequently where the credit rating is lower, and subjected to the approvals procedure. This procedure also verifies whether the previous rating is still justified and whether the profitability of the client relationship is proportional to the risk involved.

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

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

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

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

The sovereign risks are limited and monitored separately. Bases on analysis of the political and economical situations of the respective countries, country limits are approved by the Management and by the credit committee of the Supervisory Board and are reviewed at least annually. In this context, the Bank makes use of the high-quality expertise available to it through HSBC's worldwide office network, especially in Asian and Latin American countries.

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

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

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

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

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

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

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

Basel II

Central to the Basel II framework, which was adopted into national law in 2006 by means of the introduction of a German solvability regulation is the changing of the regulatory equity capital requirements governing the credit industry. HSBC Trinkaus & Burkhardt will use the transitional regulation of the solvability regulation and implement the base IRB approach (internal ratings based) as of 1 January 2008. The introduction of the IRB approach, will lead to a much more differentiated consideration and quantification of the credit risk. The Bank intends to introduce an internal rating system to enable the risk-sensitive controlling of its portfolio in compliance with the capital adequacy requirements and to implement risk-adjusted controlling based on this system throughout the Bank.

The implementation of the Basel II requirements is being coordinated at HSBC Trinkaus & Burkhardt by a central project group coordinating implementation particularly in the fields of credit, accounting and IT. With a view to the introduction of the IRB approach, the Bank already introduced a new Basel-II compliant client rating system in 2005. A focal point of this work in 2006 was the improvement of the IT systems with regard to the recording and the creation of data history on the rating information. In 2006, HSBC Trinkaus & Burkhardt made an application for authorisation of the base IRB approach with BaFin. The inspection for certification of the internal rating system by the German banking supervisory authority is planned for the first quarter of 2007.

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

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

Operational Risks

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

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

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

The operational risks that are identified by means of this "self assessment" are evaluated according to their loss potential and the likelihood of their occurrence both before and after taking into account any risk reduction measures already taken in order to calculated the absolute inherent level of risk for the Bank. On this basis, risks are then assigned to one of four risk categories, explicitly taking into account the bank's control environment that has already been implemented. If the Committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. It can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

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

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

The minutes of the Committee meetings are presented to the Managing Board for approval. This ensures that all board members are constantly informed about current developments and the Bank's risk profile.

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

In addition to the reporting system for incidents, staff are asked to report problems connected with operational risk to the Committee's office. The Managing Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The Committee's work has generated significantly greater awareness of operational risk among all Bank staff in recent years. As a formal organisational unit within the Bank, the Committee provides a central contact point for all issues relating to operational risk as well as reputational risks.

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

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

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

Market risks

Market risks are the potential losses on trading positions which can arise from unexpected changes in the market prices of securities and currencies, interest rates and volatilities, dividend estimates and correlations. Market risks in proprietary trading arise exclusively from interest rate, equity and foreign exchange activities, as well as to a lesser extent from raw materials activities without a physical delivery.

To measure market risks under normal market conditions we have been using for many years a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Our value-at-risk model is based on a historical simulation of risk factors over a period of 500 trading days and covers interest rate, equity, foreign exchange and volatility risks. Interest rate risk embraces both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. Spread risks from other interest-rate positions are not included in the model in view of their minimal importance for proprietary trading. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits. Raw materials risk are limited internally by means of various limits (including limits for sensitive and special stress scenarios).

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

in € million	31 Dec 2006	31 Dec 2005
Interest rate transactions	5.2	4.4
Interest rate transactions	0.3	0.3
Equity/index transactions	4.7	4.9
Total market risk potential	**7.6**	**6.1**

The model (excluding the specific interest-rate risk), with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to the Bank's trading book market risk pursuant to the capital ratio according to principle I (*Grundsatz I*). The model-specific add-on factor currently amounts to 3.2. Raw material risks are covered under supervisory law by the standard rate.

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

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

For risk assessment quality assurance purposes we also conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. In 2006, no back- testing anomalies were found anywhere throughout the Bank, a fact which suggests that the risk modelling employed is probably still on the conservative side.

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

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions. The limits used here are assigned taking into account the ability to assume risk determined by the Asset and Liability Management Committee's capital allocation decisions. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the limits are automatically reduced. Owing to the favourable trend in earnings, it was not necessary to reduce the risk limits in the last financial year. The Market Risk Controlling department also monitors the limits prescribed by HSBC, and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

Market risks arising from the investment of equity capital components are allocated to the Bank's investment book. These risks are recorded outside the risk models and are controlled at executive management level.

Liquidity Risks

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

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

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

Our internal bank liquidity reserves still significantly exceed requirements as set forth in liquidity principles of the BaFin. Taking this into consideration, there are currently no plans to introduce an internal model for liquidity risks.

Employees

Number of employees

The number of persons employed increased by the end of 2006 in comparison with the previous year by 47 to 1,266. Seven trainees completed their banking qualifications during the year under review and six successfully completed their training in office communications. At the end of 2006, we were paying retirement, widow's and orphan's pensions to 533 recipients, after 519 at the end of the previous year.

Training

In view of the continuing intense competition in the banking industry, the technical and social skills of our employees are of the utmost importance, because only highly qualified personnel are capable of meeting the exacting quality standards that we and our customers demand. Taking this into consideration, we pay particular attention to the further training of our employees. For example, we help them to advance by providing product-specific training, leadership seminars and communication training, as well as PC and IT seminars, foreign language courses and secondments abroad. When selecting vocational training activities, we play close attention to the special requirements placed on our employees in various areas of business.

Performance-related compensation

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

Thanks

The Bank owes its success to the commitment and performance of our employees, and we would like to take this opportunity to thank them all. We would also like to thank the Employees' Council and the staff representatives on the Supervisory Board for their constructive and trusting cooperation in the latest financial year.

Shareholders and Shares

Shareholders

As of 31 December 2006 the Bank had share capital of € 70.0 million, divided into 26.1 million shares of no par value. 52% of the share capital was listed on the official market of the Düsseldorf and Stuttgart stock exchanges.

All shares have equal rights and are issued in the form of bearer shares. Each share grants one vote. The Managing Board knows of no limitations on the votes or the transfer of shares.

As of the balance sheet date, HSBC Holdings plc, London held an indirect stake of 78.6% (previous year: 77.9%) of the share capital and Landesbank Baden-Württemberg, Stuttgart, still holds an indirect stake of 20.3%.

Prices and quoted values

The share price rose during 2006 by 20% to €105.00. The lowest share price was €86.00 and the highest was €121.00. From an initial issue price of DM 120 per DM 50 share on 25 October 1985, the listed share price and market capitalisation have evolved as follows:

Date	Quantity of ahares*	price of shares in €	Market capitalisation in € million
31.12.1985	18,000,000	17.60	317.5
31.12.1990	22,000,000	19.80	435.3
31.12.1995	23,500,000	30.60	718.5
31.12.2000	26,100,000	110.00	2,871.0
31.12.2005	26,100,000	87.50	2,283.8
31.12.2006	26,100,000	105.00	2,740.5

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

Dividends

Since the initial admission to official listing, the value of a share, assuming reinvestment of dividends and participation in all capital increases, has increased by a factor of approximately 9.6. This is equivalent to average capital gain of around 11.3 % p. a.

For the 2006 financial year, we propose paying a dividend of € 2.50 per share (2005: € 2.50 per share). With an aggregate dividend amount of €65.3 million, we intend to ensure that our shareholders participate suitably in the increase in profits.

Düsseldorf 6 February 2007

The Managing Board

Financial Statements in Accordance with HGB

Annual Balance Sheet **HSBC Trinkaus & Burkhardt AG, Düsseldorf**

as of December 31, 2006

Assets

					31/12/2006	31/12/2005
			EUR	EUR	EUR	TEUR
Cash reserves						
a) Cash on hand				1,827,814.05		1,569
b) Balances with central banks				433,923,220.26		796,639
of which: at Deutsche Bundesbank	EUR	433,923,220.26				(796,839)
c) Balances at girobanks				0.00		
					435,751,034.31	798,208
Loans and advances to banks						
a) Due daily				1,606,534,596.33		1,259,015
b) Other receivables				2,967,738,122.04		3,724,662
					4,574,272,718.37	4,983,677
Loans and advances to customers					3,554,487,985.67	2,933,923
of which:						
secured by real estate liens	EUR	0.00				0
Local authority loans	EUR	472,021,498.17				(524,291)
Bonds and other fixed income securities						
a) Money market papers						
aa) from public issuers			0.00			
ab) from other issuers			1,707,086,403.10			4,993
				1,707,086,403.10		4,993
b) Loans and bonds						
aa) from public issuers			254,412,330.48			237,802
of which: acceptable as collateral by the Deutschen Bundesbank	EUR	254,412,330.48				(237,802)
ab) from other issuers			2,637,801,443.33			1,757,987
				2,892,213,773.81		1,995,789
of which: acceptable as collateral by the Deutschen Bundesbank	EUR	2,195,176,587.08				(1,591,440)
c) Own bonds				6,580,632.36		24,544
Nominal amount	EUR	5,133,000.00				(22,535)
					4,605,880,809.27	2,025,326
Equity and other variable interest securities					1,464,331,208.73	1,355,644
Participations					6,036,926.06	5,405
of which: to banks	EUR	474,411.12				(474)
to financial services institutions	EUR	723,884.72				(629)
Shars in affiliated companies					161,210,466.94	161,210
of which: to banks	EUR	0.00				0
to financial services institutions	EUR	2,602,428.63				(2,602)
Trust assets					138,563,755.45	140,108
of which: trustee loans	EUR	18,716,109.67				(19,255)
Intangible assets					5,974,594.81	6,755
Tangible assets					16,386,076.26	13,644
Other assets					417,320,327.53	230,041
Deferred tax refund claims					20,436,188.67	16,091
Prepaid expenses/deferred income					45,699,936.61	36,215
TOTAL ASSETS					15,446,352,028.68	12,706,247

Liabilities

					31/12/2006	31/12/2005
			EUR	EUR	EUR	TEUR
Liabilities to banks						
a) due daily				1,096,816,570.11		998,559
b) with an agreed duration or cancellation period				658,901,365.20		779,189
					1,755,717,935.31	1,777,748
Libilities to customers						
a) Savings deposits						
aa) with an agreed cancellation period of three month			12,284,436.01			13,080
ab) with an agreed cancellation period of more than three month			1,339,967.91			1,357
				13,624,403.92		14,437
b) Other libilities						
ba) due daily			4,684,484,971.53			3,813,481
bb) with an agreed duration or cancellation period			3,470,006,310.04			2,813,022
				8,154,491,281.57		6,626,503
					8,168,115,685.49	6,640,940
Securized dept						
a) bonds issued				3,194,523,164.89		2,368,838
b) other securitizes dept				0.00		10,751
of which: own acdeptances and promissory notes	EUR	0.00				(10,751)
					3,194,523,164.89	2,379,589
Trust liabilities					138,563,755.45	140,108
of which: trustee loans	EUR	18,716,109.78				(19,255)
Other liabilities					750,857,308.08	484,356
Prepaid expenses/deferred income					23,380,644.54	33,108
Provisions						
a) provisions for pensions and similar obligations				127,908,626.89		124,410
b) provisions for taxes				41,135,599.94		79,296
c) other provisions				95,386,910.53		74,100
					264,431,137.36	277,806
Secial tax-allowable reserve in accordance with § 52 EStG (German Income Tax Act) in connection with § 5 Para. 1 EStG					0.00	0
Subordinated liabilities					308,151,675.25	276,032
Participatory capital					135,790,431.68	35,790
of which: due within two years	EUR	0.00				0
Funds for general bank risks					0.00	0
Equity						
a) subscribed capital	EUR	70,000,000.00		70,000,000.00		70,000
- conditional capital -	EUR	13,500,000.00				(13,500)
b) capital reserve				210,520,290.63		210,520
c) revenue reserves						
other retained earnings			314,500,000.00			244,500
				314,500,000.00		244,500
d) distributable profit				111,800,000.00		135,750
					706,820,290.63	660,770
TOTAL LIABILITIES					15,446,352,028.68	12,706,247

	EUR	EUR	TEUR
Contingent liabilities			
a) contingent liabilities from rediscounted bills of exchange	0.00		0
b) liabilities from guarantees and indemnity agreements	1,346,551,770.80		1,277,300
		1,346,551,770.80	1,277,300
Other obligations			
a) repurchases obligations under agreement to sell securities with an option to repurchase the	0.00		0
b) placement and underwriting obligations	0.00		0
c) irrevocable credit commitments	3,700,551,041.32		2,704,829
		3,700,551,041.32	2,704,829

Profit and Loss Account for the period 1 January to 31 December 2006
HSBC Trinkaus & Burkhardt AG, Düsseldorf

			2006	2005
	EUR	EUR	EUR	TEUR
1. Interest income from				
a) Lending and money market business	254,123,779.26			193,553
b) Fixed-income securities and government-inscribed dept	132,879,091.17			104,523
		387,002,870.43		298,076
2. Interest expenses		271,741,161.66		206,232
			115,261,708.77	91,844
3. Current income from				
a) Equity shares and other variable-yield securities		38,407,899.19		31,565
b) Participating interests		306,841.81		777
c) Share in affiliated companies		609,352.98		1,017
			39,324,093.98	33,359
4. Income from profit-pooling, profit transfer and partial profit-transfer agreements			47,784,346.19	35,542
5. Commission income		344,323,015.11		290,246
6. Commission expense		145,309,043.47		98,344
			199,013,971.64	191,902
7. Net incom from finacial transactions (previous year: net expense)			38,713,799.05	68,352
8. Other operating income			12,093,571.79	33,938
9. Income from the release of special items with reserve			0.00	0
10. General administrative expenses				
a) Staff costs				
aa) wages and salaries	145,992,516.34			136,770
ab) social security contributions and other pension costs	29,637,215.81			25,467
of which:		175,629,732.15		162,237
for pension 15,926,468.33				(11,902)
b) other administrative expenses		89,671,450.85		81,064
			265,301,183.00	243,301
11. Depreciations and value adjustments on intangible assets and tangible assets			7,529,942.39	9,226
12. Other operating expenses			6,641,922.60	8,413
13. Write-downs and value adjustments on receivables and certain securities as well as additions to provisions in credit business		0.00		0
14. Income from write-ups to receivables and vertain securities as well as from dissolution of provisions in credit business		4,365,244.01		11,664
			4,365,244.01	11,664
15. Write-downs and value adjustments to paritcipaiting interests, shares in affiliated companies and securities treated as tangible assets		0.00		0
16. Income from write-ups to participating interests, shares in affiliated companies and securities treates as tangible assets		0.00		18
			0.00	18
17. Expenses from assumption of losses			2,180,123.50	122
18. Adjustment in special tax-allowable reserve			0.00	0
19. Net profit from ordinary activities			174,903,563.94	205,557
20. Steuern vom Einkommen und vom Ertrag		62,606,277.97		81,794
21. Other taxes, other pension costs		997,285.97		13
			63,603,563.94	81,807
22. Net income			111,300,000.00	123,750
23. Profit carried forward from the previous year			500,000.00	12,000
			111,800,000.00	135,750
24. Distributable profit			111,800,000.00	135,750

Annex for financial year 2006
HSBC Trinkaus & Burkhardt AG

Principles

Change of legal form

On May 30, 2006, the Annual General Meeting accepted the proposal of the Managing Partners of HSBC Trinkaus & Burkhardt KGaA to change the legal form of the Bank from a "KGaA" (partnership limited by shares) to that of "AG" (German stock corporation).

The change took effect when it was entered in the commercial register on July 31, 2006.

Miscellaneous

The annual financial statements of HSBC Trinkaus & Burkhardt AG as of 31 December 2006 were prepared in accordance with the applicable regulations of the German Commercial Code (*Handelsgesetzbuch* – HGB), taking into account requirements of the *Aktiengesetz* (AktG - German Stock Corporation Act), in connection with the accounting regulation issued for credit institutions.

The figures in brackets relate to financial year 2005.

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London, E14 5HQ, Great Britain, register number 617987. As of the end of 2006, HSBC Holdings plc held an indirect stake of 78.6% in HSBC Trinkaus & Burkhardt AG.

Accounting and Valuation Methods

Foreign currency translation

Assets treated as tangible assets are converted to acquisition price, if the price risk is not specially hedged.
All other items denominated in foreign currency will be converted using the mean spot rate for the balance sheet date irrespective of when they were created or their maturity dates. Unrealised profits resulting from this conversion will not be taken into account, in compliance with the recognition-of-loss principle.

Exchange rate gains are included as an increase in profit, if the assets, debts or cash or forward trading transactions in foreign currency that are not assigned to trading transactions have special coverage with currency, amount and term identity. If there is only coverage in the same currency irrespective of the duration, the measurement gains will only be included up to the level when they offset measurement losses.

With regard to the treatment of trading items relating to foreign currencies, please refer to the following section "Evaluation of Transactions Affected by Market Risk".

Receivables

Receivables from banking business are reported strictly at their nominal amounts on the balance sheet. Discounts and premiums are defined and dissolved pro rata temporis as net interest income.

Receivables are evaluated against unchanged benchmarks. Accordingly, individual value adjustments are made for acute credit risks flat-rate value adjustments are formed for deferred credit risks. The book value of the receivables is reduced by the value adjustments created in this way.

Acute counterparty risk from contingent assets (assumption of guarantees and letters of credit, bank discounting, loan commitments) are hedged by means of appropriate provisions.

The evaluation of the registered bonds takes place in the same way as the evaluation of the securities portfolio, in accordance with the strict lowest value principle in accordance § 253 Para. 3 HGB. Write-downs totalling €6.5 million (€1.9 million) were performed for registered bonds.

Securities

The valuation of the entire securities portfolio, i.e. shares, bonds, and other securities is performed in accordance with the strict lowest value principle in accordance with § 253 Para. 3 HGB; also taking into account the derivative instruments and forward trading used for hedging in the valuation units. All securities are assigned either to the trading portfolio or the liquidity provision portfolio. No securities portfolio treated as tangible assets is held.

Loaned securities are reported in the same way as repurchased securities in the balance sheet as securities. Borrowed securities are reported in the same way as reverse-purchased securities not as securities. Short sales are reported under other liabilities, even if these transactions are completed by means of borrowed or reverse-purchased securities.

Holdings and shares in affiliated companies

Holdings and shares in affiliated companies are valued at acquisition cost or at long-term lower current costs.

Tangible assets

Tangible assets are capitalised at acquisition or manufacturing cost and if the assets have a limited life, are subject to regular straight-line depreciation.

Low-value economic goods are fully depreciated in the year of acquisition. In financial year 2006, no special tax depreciation was performed.

Extraordinary depreciation is expected to be performed in the case of long-term reductions in value. The deprecation of buildings is taken into account by means of straight-line depreciation over a period of 50 years or a shorter remaining life. Tenants' installations are subject to straight-line depreciation over the duration of the rental agreement.
In calculating the deprecation for operating and office equipment, an expected useful life that is acceptable for tax purposes is used as a basis.

Liabilities and provisions

Liabilities are recorded at the repayment amount. If a discount or premium is agreed, this is reported on the balance sheet as an active or passive deferred income item and is released proportionally over time as interest income. Non-interest bearing. Liabilities, e.g. zero coupon bonds, are reported at cash value.

Pension provisions are capitalised at the actuarial partial value on the basis of a base interest rate of 6%; if employees have entered the company since 1 January 2001 and an amount exceeding the partial value is calculated for these employees, the calculation is performed on the basis of the “projected unit credit method” (IFRS). In doing so, the following parameters are used as a basis: long-term base interest rate 4.5% expected salary development 3.0%, expected pension adjustment 2.0%, expected rate of inflation 2.0% and expected increase in the income threshold for social security 2.5%.

In addition, there is pension capital with a financial mathematical annuity of 7.5% p.a., as well as an additional pension capital with a financial mathematical Annuity of 6.0% p.a. The calculation of pension obligation is based on the mortality tables altered in 2006.

Other provisions were determined in accordance with the principle of care and therefore take all identifiable risks into sufficient account.

Evaluation of transactions involving market risk

Transactions affected by market risk are reported on the balance sheet in accordance with risk management principles of control on the basis of a portfolio approach. Individual items with a similar risk structure are combined into units of market risk. As part of the valuation of the portfolio, the balances form the offsetting of unrealised profits and losses for the individual items are first of all calculated. In accordance with the recognition-of-loss principle, a negative balance (= unrealised loss) is recorded in the profit and loss account. An overall positive balance (= unrealised profit), on the other hand, is not taken into account.

Unrealised profits and losses are calculated by means of comparison of market prices with the cost value (mark-to-market valuation) in accordance with the following principles:

- Interest rate transactions

In the case of products traded on the stock exchange, the price of the stock exchange in question or an equivalent fair value is assumed. The net cash values are applied to all products that are not traded on a stock exchange (OTC products). These are calculated by means of discounting of the future cash flow on the basis of interest or volatility curves and taking into account the deferred interest depending on the product.

- Currency related transactions

In the valuation of instruments in foreign currency, the regulations of § 340 h HGB are observed.

Currency cash and forward trading are converted using the corresponding spot or forward rates on the balance sheet date. If currency options are trade on an exchange, the exchange price is applied.

For currency options that are not traded on an exchange, the market price is calculated on the basis of the spot rate for the currency in question, the market swap rates and the volatility of the market on which it is traded.

- Transactions with other price risks

For share or index-related transactions traded on a foreign or domestic stock exchange, the stock exchange price or an equivalent fair value as of the balance sheet date is used. The price of products not traded on a stock exchange is determined on the basis of the share spot rate, the interest yield curve, the expected dividend payments and the market-related volatility structures.

Compensation in the Profit and Loss Account

In the area of risk provisions, costs and income are compensated for statement in the profit and loss statement.

Notes to the Balance Sheet

Division of terms by residual maturity

Loans and advances to banks in € million	31 Dec 2005	31 Dec 2006
a) Due daily	1,606.6	1,259.0
b) Other securitized debt	2,967.7	3,724.7
with a residual maturity of – up to three months	2,326.7	3,089.6
– more than three months, up to a year	33.1	109.4
– more than one year, up to five years	121.8	113.9
– more than five years	486.1	411,8
Total	**4,574.3**	**4.983,7**

Loans and advances to clients in € million	31 Dec 2006	31 Dec2005
with a residual maturity of – up to three months	2.111,0	1.544,3
– more than three months, up to a year	173.4	352,7
– more than one year, up to five years	443.0	399,5
– more than five years	827.1	637,4
Total	**3,554.5**	**2.933,9**

Liabilities, Banks in € million	31 Dec 2006	31 Dec 2005
a) Due daily	1,096.8	998.5
b) With agreed duration or notice period	658.9	779.2
with a residual maturity of – up to three months	577.7	663.3
– more than three months, up to a year	42.5	68.5
– more than one year, up to five years	34.0	13.6
– more than five years	4.7	33.8
Total	**1,755.7**	**1,777.7**

Liabilities. to customers in € million	31 Dec 2006	31 Dec 2005
a) Savings deposits	13.6	14.4
with a residual maturity of – up to three months	12.3	13.1
– more than three months, up to a year	0.1	0.2
– more than one year, up to five years	0.0	0.0
– more than five years	1.2	1.1
b) Other liabilities	8,154.5	6,626.5
ba) due daily	4,684.5	3,813.5
bb) with an agreed duration or or notice period	3,470.0	2,813.0
with a residual maturity of – up to three months	1,726.8	1,502.7
- more than three months up to a year	171.2	201.8
– more than one year up to five years	418.5	400.4
– more than five years	1,153.5	708.1
Total	**8,168.1**	**6,640.9**

Securitised Debt in € million	31 Dec 2006	31 Dec 2005
a) Bonds issued	3,194.5	2,368.8
with a residual maturity of – up to three months	95.7	835.9
– more than three months, up to a year	2,009.4	529.6
– more than one year, up to five years	668.1	770.9
– more than five years	421.3	232.4
b) Other securitized debt	0.0	10.8
with a residual maturity of – up to three months	0.0	10.8
- more than three months up to a year	0.0	0.0
Total	**3,194.5**	**2,379.6**

**Affiliated companies -
Receivables and liabilities**

in € million	31 Dec 2006	31 Dec 2005
Loans and advances to banks	505.6	512.5
Loans and advances to customers	72.1	138.9
Bonds	0.0	0.0
Deposits by banks	718.9	820.9
Deposits by customers	236.5	89.6
Securitized debt	0.0	0.0
Subordinated liabilities	0.0	0.0

**Associated companies -
Receivables and liabilities**

in € million	31 Dec 2006	31 Dec 2005
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.5	0.0
Bonds	0.0	0.0
Deposits by banks	0.0	0.0
Deposits by customers	1.0	1.0
Securitized debt	0.0	0.0
Subordinated liabilities	0.0	0.0

Trust Activities

The trust funds and the trust liabilities are broken down over the following balance sheet items:

Trust assets in € million	31 Dec 2006	31 Dec 2005
Loans and advances to banks	0.0	0.0
Loans and advances to customers	18.7	19.3
Participations	119.9	120.8
Total	138.6	**140.1**

Trust liabilities in € million	31 Dec 2006	31 Dec 2005
Deposits by banks	0.6	1.8
Deposits by customers	130	138.3
Total	138.6	140.0

Foreign currency

As of 31 December, the assets in foreign currencies totalled €959.7 million (€742.1 million). The total debt in foreign currency totalled €927.9 million (€921.3 million).

Loans and advances to banks

On the balance sheet date, €1,037.0 million (€610.1 million) was pledged as security for securities loans transactions.

Loans and advances to customers

This item includes receivables with an uncertain duration totalling €184.5 million (€101.3 million).

Bonds and other fixed income securities

in € million	31 Dec 2006	31 Dec 2005
Liquidity provision portfolio	566.7	583.3
Trading portfolio	4,039.2	1,442.0
Total	**4,605.9**	**2,025.3**

Securities with a book value of €2,030.3 million (€36.7million) that are marketable but are not listed.

On the balance sheet date, bonds with a nominal value of €1,878.3 million (€1,637.3 million) were available to secure peak refinancing facilities. As in the previous year, there were no open-market transactions with Deutsche Bundesbank as of the balance sheet date.

As of the balance sheet date, securities with a book value of €0.2 million (€184.3million) were repurchased.

Fixed-interest securities with a nominal value of €473.3 million (€1,037.5 million) were deposited as collateral for transactions on Eurex and for securities lending transactions.

Notes and bonds with a book value of €1,896.2 million (€237.2 million) will mature in financial year 2007.

Equity and other variable interest

in € million	31 Dec 2006	31 Dec 2005
Liquidity provision portfolio	587.0	577.0
Trading portfolio	877.3	778.6
Total	**1,464.3**	**1,355.6**

The balance sheet item includes marketable securities to a total of €922.5 million (€810.4 million). All marketable securities are listed on a stock exchange. Non-marketable securities total €541.8 million (€545.0 million).

No shares were deposited as security for securities lending transactions. As of the balance sheet date, shares with a book value of €761.7 million (€483.3 million) were lent. As in the previous year, there were no repurchase transactions with shares and other variable-yield securities.

As part of a Contractual Trust Arrangement (CTA), the bank has transferred all shares in a special fund with a book value of €145.8 million (€137.6 million) to a trust company as of 1 September 2005

Subordinated assets

in € million	31 Dec 2006	31 Dec 2005
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.1	0.1
Bonds		
Other liabilities	69.2	16.2
Bonds	0.0	0.0

Holdings and Shares in affiliated companies

Holdings still does not include any listed securities. As in the previous year, the balance sheet item shares in affiliated companies does not include any marketable shares.

You can find an overview of financial assets on page 88.

Assets

Tangible assets include operating and office equipment assets with a book value of €16.0 million (€12.6 million). The bank owns 20 parking spaces in the garage complex at Kö-Center, Düsseldorf, which it uses within its own business activities. Low-value economic goods of €0.6 million (€0.5 million) were written off immediately in the AG financial statements in financial year 2006.

The statement of changes in fixed assets is shown on page 88.

Own shares

At the end of financial year 2006, HSBC Trinkaus & Burkhardt AG did not hold any of its own stocks or shares, as was also the case in the previous year. As of the balance sheet date, 540 (540) shares in HSBC Trinkaus & Burkhardt AG are pledged as security at the bank as part of credit business. This quantity is equal to 0.002% (0.002%) of the share capital.

In order to cultivate the market and in line with the authorisation issued by the Annual General Meeting, during 2006, the AG purchased and resold a total of 195,023 (41,175) of its own shares. They represent 0.75% (0.2%) of the share capital. The average acquisition price per share was €87.34 (€84.68). The average sale price was €87.82 (€85.07). Income from these transactions is included in operating profit. The highest daily total was 191,575 (21,423) or 0.73% (0.08%) of the share capital.

Other assets

The item other assets mainly consists of option premiums and security deposits for futures contracts totalling €325.2 million (€168.2 million), as well as receivables from affiliated companies and tax refund claims totalling €76.2 million (€46.1 million).

Deferred tax refund claims

This item includes deferred tax refund claims totalling €20.4 million (€16.1 million), which result from various realization of expenses in accordance with trade and taxation law at various dates.

Accrued and deferred items

Active accrued and deferred items in € million	31 Dec 2006	31 Dec 2005
Discounts from receivables	3.4	3.7
Premiums from liabilities	36.6	25.1

Passive accrued and deferred items in € million	31 Dec 2006	31 Dec 2005
Discounts from receivables	2.8	2.0
Premiums from liabilities	8.5	12.2

Other liabilities

Other liabilities include mainly option premiums totalling €564.4 million (€403.9 million), as well as replacement risk obligations from short sales totalling €121.0 million (€21.5 million). In addition, tax obligations totalling €27.5 million (€20.3 million), as well as deferred interest on participatory capital and subordinated liabilities totalling €11.9 million (€10.3 million) are included.

Securitized debt provisions

Of the bonds issued, €2,105.1 million will mature within the next year.

Retirement benefits

All pension obligations that are to be reported in the commercial balance sheet are calculated by means of actuarial reports

Provisions for taxation

In the AG financial statements, as in the previous year, no provisions were to be formed for deferred taxes.

Other provisions

in € million	31 Dec 2006	31 Dec 2005
Provisions in credit business	9.8	11.7
Provisions in the area of staff	58.2	40.4
Other provisions	27.4	22.0
Total	**95.4**	**74.1**

Subordinated liabilities

The liabilities include subordinated bonds and promissory note loans, which total €308.2 million (€276.0 million). In financial year 2006, interest expense was €13.9 million (€12.6 million).

No issued bond exceeds 10% of the total amount of subordinated liabilities. There are no advance repayment requirements

Interest on subordinated liabilities

Interest	Nominal amount in € million
4% to 5%	133.2
5% to 6%	137.2
6% to 7%	10.2
7% to 8%	2.6
8% to 9%	0.0
Fixed rates	283.2
Variable	25.0
Total	**308.2**

Repayment of subordinated liabilities

Maturity	Nominal amount in € million
Up to one year	15.2
One to five years	69.6
Over five years	223.4
Total	**308.2**

Subordination agreement

All subordinated liabilities follow non-subordinated liabilities to other creditors for payment from capital in rank. This subordination applies to cases of liquidation, insolvency or procedures to avoid insolvency.

The subordinated liabilities are included at a total of €299.0 million (€260.8 million) in the calculation of liable equity capital according to Section 10 Para. 5a German Banking Act (*Kreditwesengesetz* – KWG).

Participatory capital

The Bank used the Annual General Meeting's authorisation dated 16 June 1992 for the issuing of profit participation certificates in December 1993.

The owners of the profit participation certificates receive a payout of 7.0%, which precedes the profit share of the shareholders.

The duration of the profit participation certificates dated 1993 is limited until the end of financial year 2008; the redemption will take place on 30 June 2009 at the nominal value, subject to the regulations on participation in a balance sheet loss.

In accordance with authorisation by the Annual General Meeting dated 30 May 2006, the AG issued registered profit participation certificated totalling €100.0 million in four tranches. The duration of the registered profit participating certificates for €6.0 million or €5.0 million, respectively, is limited until 31 December 2016, the annual payout will be 4.77 %.or 4.78 %, respectively. The duration of the profit participation certificates for €52.0 million or €37.0 million, respectively, will end on 31 December 2020, the annual payout will be 4.89 % or 4.91%, respectively. The redemption will take place in each case six months after the end of the duration at the nominal value, subject to the regulations on participation in a balance sheet loss.

All profit participation certificates and registered profit participation certificates meet the conditions of §10 Para. 5 KWG are therefore recognised under supervisory law as supplementary capital.

The conditions of all issues state that the receivables from the securities follow the non-subordinated receivables from all creditors of HSBC Trinkaus & Burkhardt AG in rank. They are equally ranked with all other subordinated receivables existing against HSBC Trinkaus & Burkhardt AG. The profit participation certificates or registered profit participation certificates, respectively, will participate in a balance sheet loss in accordance with the conditions of issue.

It is possible for HSBC Trinkaus & Burkhardt AG to terminate the profit participation certificates and registered profit participation certificates in the case of a change in tax regulations. The owners of profit participation certificates are not authorised to terminate the certificates and request the redemption of the capital.

Equity

The subscribed capital of the AG was unchanged at €70.0 million. In accordance with the resolution by the Annual General Meeting dated 9 June 1998, it remains divided into 26,100,100 shares of no par value.

The capital reserve is unchanged at € 210.5 million. In accordance with the resolution passed by the Annual General Meeting dated 30 May 2006, an amount totalling €65.3 million was distributed from the balance sheet profit of €135.8 million. €70.0 million were assigned to retained earnings. €0.5 million were brought forward as accumulated profits. Retained earnings total €314.5 million.

By means of a resolution by the Annual General Meeting dated 3 June 2003, the Managing Board is authorised to increase the equity capital by up to €23.0 million up to 31 May 2008 with the approval of the Supervisory Board by means of one or several issues of new bearer shares with no par value against payment in cash or contribution in kind (approved capital).

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

As of the balance sheet date, the unrealised reserves to be reported in accordance with § 340 c Para. 3 HGB and to be allocated to liable equity in accordance with §10 KWG totalled €10.7 million (€14.9 million) fixed interest securities from the banking book and €12.7 million in variable-yield securities from the banking book (€8.6 million).

As in previous years, HSBC Trinkaus & Burkhardt waived the opportunity to allocate unrealised reserves in land and buildings to liable equity.

Notes on the Contingent Liabilities

Other liabilities

As of the balance sheet date, there were no repurchase obligations under agreements to sell securities with an option to repurchase them or placement and takeover obligations for financial instruments.

Other contingent liabilities and financial liabilities not being apparent from the balance sheet

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

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, was also unchanged, at € 3.7 million and is linked to an absolute guarantee for the fulfilment of further contribution obligations directly enforceable on the other shareholders, who are members of the National Association of German Banks(*Bundesverband deutscher Banken e.V.*).

Other liabilities from rental and leasing contracts in € million	31 Dec 2006	31 Dec 2005
Total	39.8	32.5
Of which to affiliated companies	5.9	6.4

ANNEX A

Transactions affected by market risk

Transactions with financial derivatives

		Nominal amounts with a residual maturity of: up to 1 year	over 1 year up to 5 years	over 5 years	Nominal amounts 2006	Nominal amounts 2005	Market value positive 2006	Market value positive 2005	Market value negative 2006	Market value negative 2005
		mio €	mio €	mio €	mio €	mio €	mio €	mio €	mio €	mio €
Interest rate transactions										
OTC - Products	FRAs	5	0	0	5	0	0	0	0	0
	interest rate swaps	4,007	12,649	10,703	27,359	31,737	546	1,165	562	1,158
	interest rate options-purchases	1,357	4,429	5,935	11,721	7,600	340	268	0	0
	interest rate options-sales	554	4,063	6,790	11,407	7,947	0	0	344	320
	traded	572	0	0	572	649	0	0	0	0
Exchanges-Products	interest rate options futures	0	0	5,503	5,503	5,365	9	4	8	20
	interest rate options options	0	0	0	0	0	0	0	0	0
	Total	**6,495**	**21,141**	**28,931**	**56,567**	**53,298**	**895**	**1,437**	**914**	**1,498**
Currency transactions										
OTC - Products	forward exchange contracts	22,765	1,055	121	23,941	20,380	292	326	289	330
	cross-Currency swaps	0	34	56	90	39	2	2	2	2
	currency options-purchases	1,727	121	0	1,848	2,786	59	93	0	0
	currency options-sales	1,635	98	0	1,733	2,823	0	0	41	87
Exchanges-Products	currency futures	0	0	16	16	22	0	4	0	0
	Total	**26,127**	**1,308**	**193**	**27,628**	**26,050**	**353**	**425**	**332**	**419**
Equity/index transactions										
OTC - Products	Equity/index options-purchases	19	16	170	205	8	68	4	0	0
	Equity/index options-sales	8	1	18	27	4	0	0	56	33
Exchanges-Products	Equity/index options-futures	0	0	950	950	854	5	5	4	4
	Equity/index options-options	6,781	3,636	31	10,448	9,052	430	363	326	319
	Total	**6,808**	**3,653**	**1,169**	**11,630**	**9,918**	**503**	**372**	**386**	**356**
Credit-related transactions										
OTC - Products	Credit Default swap-purchases	10	0	0	10	10	1	0	0	0
	Credit Default swap–sales	10	0	0	10	10	0	0	1	0
	Total	**20**	**0**	**0**	**20**	**20**	**1**	**0**	**1**	**0**
Total financial derivatives		**39,450**	**26,102**	**30,293**	**95,845**	**89,286**	**1,752**	**2,234**	**1,633**	**2,273**

The option premiums paid totalling €317.0 million (€157.3 million), as well as security deposits for futures contracts totalling €8.2 million (€10.9 million) were reported under other assets.

The option premiums received totalling €564.4 million (€403.9 million), were reported under other liabilities.

Breakdown of market values by contracting parties

in € million		31 Dec 2006	
		Positive	Negative
OECD	central governments	0	0
	Banks	1,589	1,363
	Financial institutions	59	127
	Other	103	172
Non-OECD	central governments	0	0
	Banks	1	1
	Financial institutions	0	0
	Other	0	0
Total		**1,752**	**1,663**

The presentation of business in derivatives in accordance with § 36 of the *Verordnung über die Rechnungslegung der Kreditinstitute* (German Directive on Accounting for Banks and Financial Services Institutions) follows the recommendations of the accounting committee of the *Bundesverband deutscher Banken* (National Association of German Banks). In accordance with international standards, the stated market values of deals represent the replacement values on the balance sheet date that may arise in the event of a default of the counterparties, regardless of their individual credit rating and any netting agreements.

The majority of derivative business is attributed to trading activities.

Market risks

HSBC Trinkaus & Burkhardt AG calculates the market risk based on a value-at-risk approach. In accordance with this approach, the implied holding duration of 10 days and a confidence interval of 99% resulted in the following value-at-risk values:

in € million	31 Dec 2006	31 Dec 2005
Interest rate transactions	5.2	4.2
Interest rate transactions	0.3	0.3
Equity/index transactions	4.7	4.9
Total market risk potential	7.6	**6.3**

Notes to the Profit and Loss Account

Breakdown of income items by geographic markets

The total amount from the components interest income, current income, income from profit pooling and transfers, commission income and other operating income totals €830.5 million (€694.5 million). All income was generated in Germany. It was assumed that the location of the branch office where income was generated is the place is authoritative with regard to the allocation of income to a geographic market. The item income from profit pooling and transfers includes income of €18.5 million (€10.7 million), which were generated by affiliated companies in Luxembourg.

Services performed for third parties for administration and brokering

At HSBC Trinkaus & Burkhardt AG, the offering of administrative and brokerage services that are performed for third parties is mainly limited to asset and deposit management and corporate finance services.

Auditors' fees

The fee for the auditing of financial accounts totalled €712.5 thousand. Expenses for opinions and assesment services totalled €81.7 thousand and €142.1 for other consultancy.

Other operating income

Other operating income of €12.1 million (€33.9 million) consists mainly of €7.1 million in cost transfers to Group companies, as well as €1.9 million in income from the subletting of office spaces.

Other operating income still includes €1.9 million in income relating to other periods, income from the dissolution of released provisions, as well as €0.2 million in income relating to other periods from the disposal of tangible assets.

Other operating expenses

Other operating expenses of €6.6 million (€8.4 million) includes €0.3 million in ex-gratia payments and €1.6 million in compensation for damages from the Bank's securities services, as well as €4.3 million for the addition of provisions for risks from issue business.

Other Notes

Employees

Annual average	31 Dec 2006	31 Dec 2005
Tariff employees	567	634
Non-tariff employees	639	627
Trainees	33	30
Total	1,239	**1,291**
of whom:		
Female	521	539
Male	718	752

Liabilities for letters of comfort

HSBC Trinkaus & Burkhardt AG ensures that all fully consolidated companies of the Group are able to meet their contractual obligations. These companies are listed in full in the list of participating interests of HSBC Trinkaus & Burkhardt AG on page 87. In addition, HSBC Trinkaus & Burkhardt AG regularly undertakes to indemnify the current general partners in the fully consolidated companies with the KG legal form as well as the Trinkaus real estate fund companies against all third party claims that are asserted against them because of their legal status or their activities as a general partner of the company in question, if the general partners are natural persons.

Corporate bodies HSBC Trinkaus & Burkhardt AG

The members of the Managing Board and the Members of the Supervisory Board are listed on page 80 to 82. The Supervisory Board mandates for these persons are stated on pages 83 to 86.

Advances and credits to members of corporate bodies

No advances and loans were granted to members of the management and the Supervisory Board. As in the previous year, there are no contingent liabilities with respect to third parties in favour of members of executive bodies.

Remuneration of Members of the Executive Bodies HSBC Trinkaus & Burkhardt AG

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

in €thousand	Fixed payments	Variable payments	Share-based payments	Other payments*	Total payment
Andreas Schmitz	592.9	2,480.0	1,486.6	22.7	4,582.2
Paul Hagen	474.3	2,480.0	1,336.6	29.8	4,320.7
Dr. Olaf Huth	474.3	2,480.0	1,186.6	42.8	4,183.7
Carola Gräfin von Schmettow	474.3	2,480.0	1,486.0	13.7	4,454.6
Total	**2,015.8**	**9,920.0**	**5,496.4**	**109.0**	**17,541.2**

*The other payments consist mainly of payments for the assumption of internal Group mandates, use of company cars, insurance premiums, as well as other benefits equivalent to cash that are taxed individually

As part of the conversion, the general partners were granted a total one-time sum of €3.0 million in shares in HSBC Holdings plc as an incentive for continued employment in the Managing Board of the AG. The paying out of share-based compensation takes place in three equal instalments in the years 2006 to 2008 and is subject to continued employment with the Bank. Of this, €1.5 million are recorded as an expense in 2006 and are taken into account in the table above
.

In financial year, three members of the Supervisory Board were paid fees for consultancy fees performed; these totalled €201,278.88.

Subject to the acceptance of the proposed appropriation of profits by the Annual General Meeting on 5 June 2007, payments to the Supervisory Board for 2006 total €1,064,831.62.

The general rules for employees apply to pension obligations against staff representatives, as well as for the former general partners of the Bank. Pension payments to retired general partners of HSBC Trinkaus & Burkhardt KGaA as well as its legal predecessor, Trinkaus & Burkhardt KG, and their surviving dependents and totalled

€4,519,106.23. Reserves for pension obligations totalling €38,718,505.00 have been created for former general partners and their surviving dependents

In 2006, remuneration of the Shareholders' Committee, which was dissolved when the legal form was switched to an AG, totalled €208,505.00. The members of the Administrative Board received compensation of €332,100.00.

Corporate Governance Code

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

Proposed appropriation of profits

in €	2006	2005
The profit and loss account concludes with a balance sheet profit of	111,800,000.00	135,750,000.00
The Managing Board proposes the following usage:		
Payment of a dividend of 2.50 per share on the full share capital entitled to dividends of 70 000 000.00 million		
This corresponds to a dividend sum of	65,250,000.00	65,250,000.00
Assignment to retained earnings of	5,500,000.00	70,000,000.00
Assignment to retained earnings of	41,050,000.00	500,000.00
	111,800,000.00	**135,750,000.00**

Düsseldorf, 6 February 2007

The Managing Board

Bodies

Managing Board

Andreas Schmitz, (spokesperson for the Managing Board), banker

Paul Hagen, banker

Dr. Olaf Huth, banker

Carola Gräfin von Schmettow, banker

Divisional Managing Board

Manfred Krause

Supervisory Board

Herbert H. Jacobi, Düsseldorf, Honorary Chairman,
former general partner
HSBC Trinkaus & Burkhardt KGaA

Dr. Sieghardt Rometsch, Düsseldorf, Chairman,
former general partner
HSBC Trinkaus & Burkhardt KGaA

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

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

Ulrich Eckhoff*, Düsseldorf,
Bank Employee
(up to 30 May 2006)

Deniz Erkman*, Krefeld,
Bank Employee

Charles-Henri Filippi, Paris,
Chairman and Chief Executive Officer,
HSBC France S.A.

Friedrich-Karl Goßmann*, Essen,
Bank Employee

Stuart Gulliver, London,
Chief Executive – Corporate Investment Banking and Markets,
HSBC Holdings plc
(as of 30 May 2006)

Birgit Hasenbeck*, Düsseldorf,
Bank Employee

Wolfgang Haupt, Düsseldorf,
former general partner
HSBC Trinkaus & Burkhardt KGaA

Harold Hörauf, Düsseldorf,
former general partner
HSBC Trinkaus & Burkhardt KGaA

Oliver Honée*, Essen,
Bank Employee
(as of 30 May 2006)

*employee representative

Dr. Siegfried Jaschinski, Stuttgart,
Chairman of the Managing Board of Landesbank Baden-Württemberg
(as of 30 May 2006)

Dr. jur. Otto Graf Lambsdorff, Bonn,
Attorney-at-law

Professor Dr. Ulrich Lehner, Düsseldorf,
Chairman of Business Management of Henkel KGaA

Dr. Christoph Niemann, Meerbusch,
former general partner
HSBC Trinkaus & Burkhardt KGaA
(up to 30 May 2006)

Dietmar Sauer, Karlsruhe,
Former Chairman of the Managing Board of
Landesbank Baden-Württemberg
(up to 30 May 2006)

Jörn Wölken*, Lohmar,
Bank Employee

Shareholders' Committee

(Dissolved on 31 July 2006)

Stephen Green, London,
Chairman of the Managing Board
Group Chief Executive,
HSBC Holdings plc

Charles-Henri Filippi, Paris,
Deputy Chairman of the Managing Board
Chairman and Chief Executive Officer,
HSBC France S.A.

Stuart Gulliver, London,
Chief Executive – Corporate Investment Banking and Markets,
HSBC Holdings plc

Dr. Sieghardt Rometsch, Düsseldorf,
former general partner
HSBC Trinkaus & Burkhardt KGaA

*employee representative

Mandates of the Members of the Managing Board, Employees and Members of the Supervisory Board

Mandates of the Managing Board

The Members of the Managing Board of HSBC Trinkaus & Burkhardt AG are members of the following

a) Statutory Supervisory Boards or

b) comparable management bodies:

Andreas Schmitz	a) none b) HSBC Investments Deutschland GmbH, Düsseldorf [1] L- Bank, Karlsruhe
Paul Hagen	a) none b) HSBC Trinkaus Investment Managers SA, Luxembourg[1] HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (deputy Chairman)[1] Falke Bank AG i.L., Düsseldorf Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1] International Transaction Services GmbH, Düsseldorf (Chairman)[1] RWE Trading GmbH, Essen
Dr. Olaf Huth	a) none b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman)[1] HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Chairman)[1] HSBC Investments Deutschland GmbH, Düsseldorf [1] HSBC Trinkaus Investment Managers SA, Luxembourg (Deputy Chairman)[1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf[1]
Carola Gräfin von Schmettow	a) DBV Winterthur Lebensversicherung, Wiesbaden b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg[1] HSBC Investments Deutschland GmbH, Düsseldorf, (Chairman)[1] HSBC Trinkaus Investment Managers SA, Luxembourg (Chairman)[1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, (Chairman)[1] Member of the Board of the following company: HSBC Asset Management (Europe) SA, Paris[2]

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

Employees

The following employees of the Bank are members of the following

a) Statutory Supervisory Boards or

b) comparable management bodies

Dr. Detlef Irmen	a) none b) International Transaction Services GmbH, Düsseldorf [1]
Manfred Krause	a) none Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Ulrich W. Schwittay	a) none b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman)[1]
Dr. Manfred von Öttingen	a) none b) HSBC Investments Deutschland GmbH, Düsseldorf [1]

[1] HSBC Trinkaus & Burkhardt Group

Members of the Supervisory Board

The members of the Supervisory Board also are members of the following

a) Statutory Supervisory Boards or

b) comparable management bodies:

Dr. Sieghardt Rometsch	a) APCOA Parking AG, Stuttgart (Deputy Chairman) Lanxess AG, Leverkusen b) Düsseldorfer Universitätsklinikum, Düsseldorf HSBC Bank Polska SA, Warsaw[2] Management Partner GmbH, Stuttgart Member of the Board of the following company: HSBC Private Banking Holdings (Suisse) SA, Geneva[2]
Stephen Green	a) none b) HSBC Bank plc, London (Chairman),[2] HSBC France, Paris [2] HSBC Holdings plc, London,[2] HSBC North America Inc., New York (Deputy Chairman), [2] HSBC Private Banking Holdings (Suisse) SA, Geneva[2] The Hong Kong & Shanghai Banking Corporation Limited, Hong Kong SAR[2]
Professor Dr. h.c. Ludwig Georg Braun	a) Stihl AG, Waiblingen Stihl Holding AG & Co. KG, Waiblingen b) Aesculap AG & Co. KG, Tuttlingen B. Braun Holding AG, Lucerne[3] B. Braun Holding AG, Lucerne[3] B. Braun Medical SA, Barcelona[3] B. Braun Medical International S.L., Barcelona[3] B. Braun Medical SA, Barcelona[3] B. Braun Milano S.p.A., Madrid[3] Carl-Zeiss-Stiftung, Heidenheim /Jena IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman) Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main/Erfurt Wilh. Werhahn, Neuss Member of the Board of the following company: B. Braun of America Inc., Bethlehem[3], B. Braun Medical Inc., Bethlehem[3] B. Braun Medical Industries Sdn. Bhd., Penang[3]

Charles-Henri Filippi	a) none b) Member of the Board of the following company: Altadis SA, Madrid HSBC Bank plc, London[2] HSBC Asset Management Holdings (France), Paris[2] HSBC Private Bank (France), Paris[2]
Wolfgang Haupt	a) Pfleiderer AG, Neumarkt Trinkaus Private Equity Pool I GmbH & Co KGaA, Düsseldorf, (Chairman)[1] Trinkaus Private Equity M 3 GmbH & Co KGaA, Düsseldorf, (Chairman), Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf, (Chairman)[1] b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf, (Chairman)[1]
Harold Hörauf	a) Börse Düsseldorf AG, Düsseldorf (Chairman) Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf, (Chairman), b) BVV Versorgungskasse des Bankgewerbes e.V., Berlin BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Dr. Siegfried Jaschinski	a) LEG Landesentwicklungsgesellschaft Baden-Württemberg, Stuttgart b) LRP Landesbank Rheinland-Pfalz, Mainz DekaBank Deutsche Girozentrale, Frankfurt am Main
Dr. Otto Graf Lambsdorff	a) Deutsche Lufthansa AG, Frankfurt am Main./Cologne Iveco Magirus AG, Ulm (Chairman) b) None
Professor Dr. Ulrich Lehner	a) E.ON AG, Düsseldorf b) Novartis AG, Basel Member of the Board of the following company: Ecolab Inc., St. Paul The DIAL Company, Scottsdale (Chairman)

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

Holdings

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

Company	Domicile	Share of equity capital in %	Company equity capital[1] in € thousand	Net earnings 2006 in € thousand
Banks and similar companies				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	29,799[2]
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	78,387	11.171
HSBC Trinkaus Investment Management Ltd,	Hong Kong	100.0	488[3]	1.879[3]
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	19,556	4.056
International Transaction Services GmbH[5]	Düsseldorf	51.0	17,495	2.495
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	- 70[2]
HSBC Investments Deutschland GmbH[7]	Düsseldorf	100.0	2,601	14,328[2]
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	3,332	842
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	- 1,541[2]
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	90	80
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	27	5
Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH	Düsseldorf	100.0	122	6
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	71	5
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	68	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	56	3
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	288	3,519[2]
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,072	2.007
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	138[2]
Trinkaus Canada 1 GP Ltd.[6]	Toronto	100.0	3[4]	2[4]
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	11,701	- 639
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,742	336
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	767	252
Other companies				
HSBC Bond Portfolio GmbH [8]	Frankfurt am Main	100.0	91	41
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	3,550	17
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	26	2

1) Including balance sheet profit/loss after profit distribution
2) Profit transfer agreement
3) Exchange rate EUR/USD = 1.3178
4) Exchange rate: EUR/CAD = 1.5300
5) Consolidated at-equity
6) Not consolidated owing to insignificant value
7) Legal name changed, previously HSBC Trinkaus Capital Management GmbH
8) Legal name changed, previously HSBC Bond Portfolio Geschäftsführungs GmbH

Statement of changes in Fixed Assets

Tangible assets

in € thousand	Acquisition costs 01 Jan 2006	Additions	Disposals	Transfers	Acquisition costs 31 Dec 2006
Rights equivalent to real property	300.4	0.0	0.0	0.0	300.4
Tangible assets	47,055.4	9,598.4	18,970.1	0.0	37,683.7
Standard software	10,463.1	41.8	32.8	0.0	10,472.1
Intangible assets	8,891.6	1,081.5	0.0	0.0	9,973.1
Total	**66,710.5**	**10,721.7**	**19,002.9**	**0.0**	**58,429.3**

in € thousand	Accumulated depreciation 01 Jan 2006	Additions	Disposals	Transfers	Accumulated depreciation 31 Dec 2005	Re-maining book value 31 Dec 2006	Re-maining book value 31 Dec 2006
Rights equivalent to real property	76.7	3.7	0.0	0.0	80.4	220.0	223.7
Tangible assets	34,418.4	4,967.4	17,739.4	0.0	21,646.4	16,037.3	12,637.0
Standard software	9,679.4	696.8	32.8	0.0	10,343.4	128.7	783.7
Intangible assets	2,136.0	1,862.5	0.0	0.0	3,998.5	5,974.6	6,755.6
Total	**46,310.5**	**7,530.4**	**17,772.2**	**0.0**	**36,068.7**	**22,360.6**	**20,400.0**

Financial Assets

in € thousand	Acquisition costs 01 Jan 2006	Additions	Disposals	Transfers	Acquisition costs 31 Dec .2006
Participations	5,406.2	631.7	0.0	0.0	6,036.9
Shares in affiliated companies	161,484.0	0.0	0.0	0.0	161,484.0
Total	**166,889.2**	**631.7**	**0.0**	**0.0**	**167,520.9**

in € thousand	Accumulated depreciation 01 Jan 2006	Additions	Disposals	Transfers	Accumulated depreciation 31 Dec 2005	Remaining book value 31 Dec 2006	Remaining book value 31 Dec 2006
Participations	0.0	0.0	0.0	0.0	0.0	6,036.9	5,405.2
Shares in affiliated Companies	273.6	0.0	0.0	0.0	273.6	161,210.4	161.210.4
Total	**273.6**	**0.0**	**0.0**	**0.0**	**273.6**	**167,247.3**	**166,615.6**

Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the profit and loss accounts, the notes to the financial statements, including the accountancy and management report of HSBC Trinkaus & Burkhardt AG, Düsseldorf for the financial year from 1 January to 31 December 2006. The accountancy and the preparation of the financial statements and management report in accordance with German commercial law are the responsibility of the Managing Board. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit of the financial statements in accordance with §317 HGB, and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (*Institut der Wirtschaftsprüfer* – IDW). These standards require that we plan and perform our audit such that misstatements materially affecting the net assets, financial and income situation in the annual financial statements in accordance with accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the financial statements and the management report are examined mainly on a test basis within the framework of the audit. The audit includes assessing the accounting principles applied and the significant estimates made by the Managing Board, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal regulations and give a true and fair view of the net assets, financial and income position of HSBC Trinkaus & Burkhardt AG in accordance with the principles of proper accounting. The management report is in keeping with the annual financial statements, provides on the whole an accurate picture of the company's position and suitably presents the opportunities and risks of future development.

Düsseldorf 14 February 2007

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Signed by: Becker	signed by: Kügler
German Public Auditor	German Public Auditor

ANNEX B

Annual Report 2006 (consolidated financial statements)

The Annual Report 2006 (consolidated financial statements) are reproduced on the following pages and separately paginated (109 pages, from page B-2 through page B-110).

Annual Report 2006

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt
Bank since 1785

Group Management Report

Organisation and Management

The Divisions

Strategic Direction

The 2006 Financial Year

The Economic Environment
Profitability
The Asset Situation
The Financial Position

Outlook

Risk Management

Staff

Shareholders and Shares

Structure and Management

The Group

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

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt (International) SA Luxembourg	**HSBC Trinkaus & Burkhardt Immobilien GmbH** Düsseldorf	**Grundstücks-gesellschaft Trinkausstraße KG** Düsseldorf
HSBC Trinkaus Investment Managers SA Luxembourg	**HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH** Düsseldorf	**Joachim Hecker Grundbesitz KG** Düsseldorf
HSBC Trinkaus Investment Management Ltd. Hong Kong	**Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH** Düsseldorf	**Dr. Helfer Verwaltungsgebäude Luxemburg KG** Düsseldorf
HSBC Investments Deutschland GmbH Düsseldorf	**HSBC Trinkaus Family Office GmbH** Düsseldorf	
Internationale Kapitalanlagegesellschaft mbH Düsseldorf	**HSBC Trinkaus Private Wealth GmbH** Düsseldorf	
International Transaction Services GmbH* Düsseldorf		

* consolidated at-equity

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

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

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

Company Constitution

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

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

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

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

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

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

Main Principles of the Remuneration Systems of the Executive Bodies

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

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

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

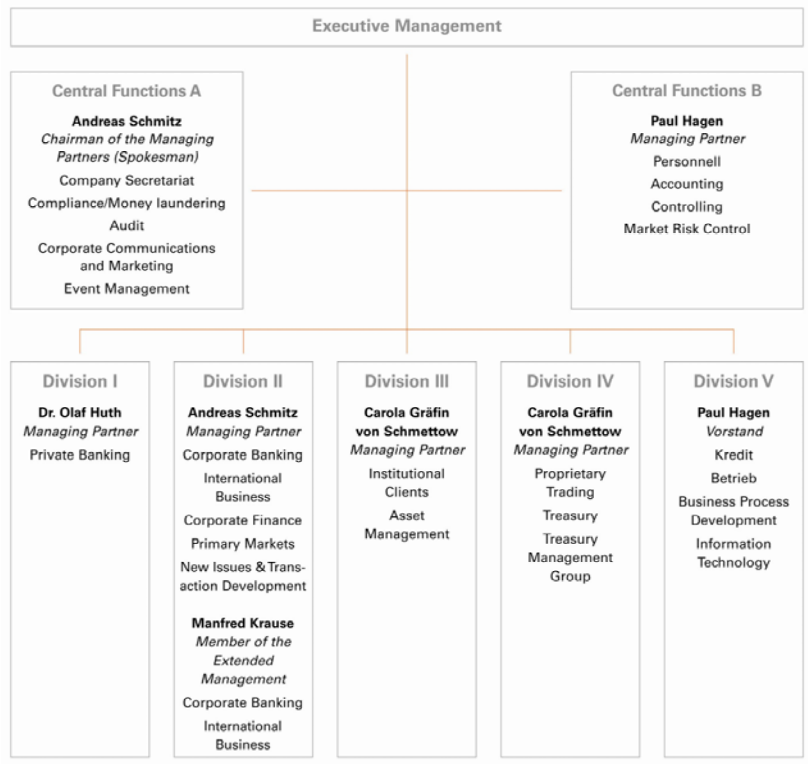
The remuneration of the members of the Supervisory Board is regulated in the Articles of Association of HSBC Trinkaus & Burkhardt AG. Each member of the Supervisory Board receives, in addition to expenses incurred (including VAT), a fixed annual payment of €25,000 and an additional payment of €100.00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

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

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

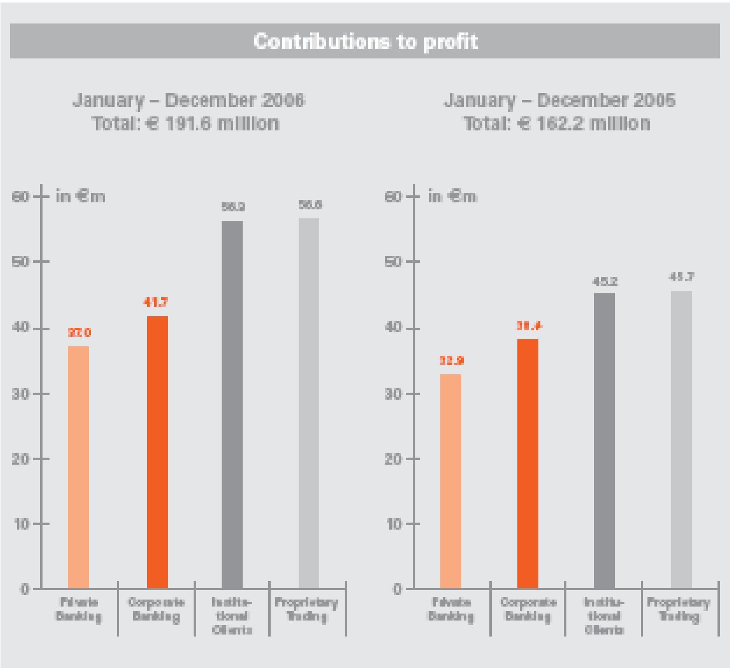
The Business Divisions

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

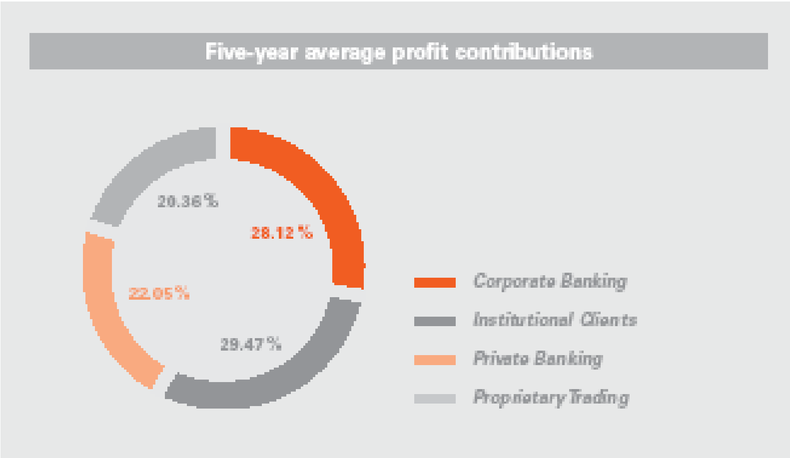


Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Proprietary Trading.

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



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



Strategic Direction

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

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

Nevertheless, the process of concentration will make lasting changes to the national and international competitive environment. An ever-more differentiated range of financing and investment alternatives is extending the spectrum of financial services and the profile of the financial profession. New technologies are also creating new products and distribution channels, but at the same time markets are becoming more transparent, eroding the information lead enjoyed by individual market participants. The size of the transactions to be executed is also steadily increasing.

We at HSBC Trinkaus & Burkhardt have recognised this development and adapted to it at an early stage. With a view to the growth in the market for banking services into a new global dimension and within the scope of our strategy to take on the position of core bank for our important corporate and institutional clients, we converted the legal form of the Bank from a Partnership Limited by Shares (KGaA) to a German Stock Corporation (AG) with effect from 31 July with the entry in the Commercial Register. This step is on the one hand a clear vote of approval from the employees and the management of HSBC Trinkaus & Burkhardt for the majority shareholder HSBC and on the other signals HSBC's commitment to HSBC Trinkaus & Burkhardt as the Group member responsible for the German market. After five months in our new look we can now say that this step has been received extremely well by the market and by our clients.

We shall continue to combine the “best of both worlds” for our clients in the new structure as well, namely the continuity, professionalism and individuality of a private bank and at the same time the international service capacity of a global financial services provider. It is essential that we make this unique combination in the German banking landscape more visible in the years ahead for both our clients and our future clients.

We offer selected clients not only the full range of traditional banking services, but also focus on sophisticated financial services as solutions to complex problems, on both national and international level. We are especially strong in the entire product range of the securities business, in interest rate and currency management as well as in international services and asset management. In the area of complex financial derivatives and in the M&A business, we systematically develop meaningful and usable innovations and solutions for our clients. By continuously updating our information and communication system we ensure the most advanced banking technology and services of the highest quality.

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

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

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

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

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

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

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

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

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

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

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

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

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

The 2006 Financial Year

The economic environment

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

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

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

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

Profitability

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

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

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

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

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

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

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

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

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

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

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

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

The asset situation

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

The growing number of client relationships is associated with the expansion of our lending portfolio, in particular in the corporate banking business. This is evident above all from the growth in loans and advances to clients. On the other hand, the increase in loans and advances to banks and assets held for trading purposes is due above all to the Group’s excellent liquidity and also to balance sheet date-related effects. One reason for the excellent liquidity situation is high levels of client deposits. These reflect the significant inflows of funds in the business with wealthy private clients and in the fund business. A second reason for the liquidity situation is the fact that, for some years now, our various trading departments have made a significant contribution to Group liquidity through the ever-growing number and diversity of structured issues. The increase in deposits by banks is exclusively balance sheet related.

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

The financial position

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

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

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

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

Outlook for 2007

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

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

2007 will therefore offer solid prospects for banks in Germany. We are confident that HSBC Trinkaus & Burkhardt will again be able to successfully hold its ground in this environment. We were able to use the opportunities for our banking business better than expected in 2006. Based on our consistent strategic orientation and the more intensive cooperation with the HSBC Group, we intend to further expand business volume in the German market. The basis of our business has been broadened through the steady expansion of our market position in the three client segments Private Banking, Corporate Banking and Institutional Clients. It is now a matter of intensifying these new business relationships and establishing HSBC Trinkaus & Burkhardt as a core bank with more and more clients.

The starting base is very high given the successes achieved in the 2006 financial year in which we clearly exceeded our forecast, especially as we have been able to generate clearly double-digit growth rates in our operating profit in each of the past four years. Nevertheless, we are pursuing the goal of further increasing our operating profit in 2007 as well. This is subject to the continuation of the trend towards higher securities turnover which was established last year as well as continued strong demand for structured products in the bond business. We see good opportunities here. The credit risk costs which made a positive contribution to the operating profit in 2005 and 2006 as a result of the release of risk provisions for individual large commitments should be in the single-digit million region. We will continue to keep a close eye on administrative expenses, but are prepared to carry our further investments in order to expand our market shares in the target client segments in the long term and offer further special services. We regard a range of between 65% and 70% for the cost-income ratio in terms of the operating profit as adequate for our business model of a universal bank offering a broad range of products for our clients. All in all, we are pursuing the goal of high single-digit percentage growth in our operating profit. The same applies to net income after tax.

We are expecting increased operating profits from all clients segments. The volume of assets managed in our Private Banking business has increased significantly as a result of the inflows of funds in previous years and the good performance forming a solid base for the further expansion of the business. We will continue to broaden our product offer, but will also require additional qualified staff in order to generate further strong growth. The performance of important asset categories will presumably require the greater use of structured products in 2007 in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident of a further substantial increase in both volumes under management and in the earnings contribution in our Private Banking segment. We are open to acquisitions in this client segment.

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

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

We see further growth in demand for our asset management services. Our subsidiary HSBC Investments Deutschland GmbH has benefited and will continue to benefit from the greater use by institutional clients of mutual funds geared especially to their requirements. The successful global product cooperation with other HSBC companies in the field of global asset management services will lead to the significant broadening of the product range above all also for investments in countries which stand out through particularly dynamic growth. The success of our subsidiary Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for fund administration will continue. A volume of more than € 50.0 billion in fund administration creates economies of scale in the competition. In addition, we will further improve our performance as a global custodian through more intensive cooperation with HSBC Securities Services. The success with acquisitions in 2006 makes us optimistic for all three services – portfolio management, the master capital investment company offer and global custody. We are also ready to make acquisitions in all three lines of business.

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

We have reorganised our trading activities in the wake of the further progress made with integrating HSBC Trinkaus & Burkhardt into the HSBC Group. The interest and foreign exchange trading books have been geared exclusively to supporting client activities and we are benefiting from the liquidity of the HSBC Group trading books. We expect that the resulting declines in proprietary trading income can be more than compensated by the increased volume of client transactions. Equity trading and the equity derivatives activities will be expanded further on the other hand in the wake of the division of labour. New products are expected to support our HSBC Trinkaus Investment Products sales initiative in the future. Overall, owing to this orientation growth in revenues from proprietary trading is more dependent on the performance of the European stock markets than before. It will only be possible to exceed the extremely high proprietary trading result recorded in 2006 given a favourable general setting.

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

Following the further issue of new participatory capital and after the planned reinvestment of net income, the Bank’s capital position has improved further and will enable the expansion of our business activities. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business.

Risk Management

Principles of risk management

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

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the bank has taken out adequate insurance. We exclude reputation and liquidity risks as far as possible and also deal with lower incomes.

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

Risk management policy
Organisational structure

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

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

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

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

Strategic Risk

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

The Bank’s strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent upon our clients’ activities on the equity, bond, foreign exchange and derivatives markets and also on the capital markets’ capacity to absorb new issues of interest rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients, can only counteract this risk to a limited extent. Thanks to our stronger integration into the HSBC Group, we can counteract this risk in a targeted way through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

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

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

In 2006, we fundamentally reviewed and improved reporting for our customers on the basis of a new portfolio management system. Subsequently, in 2006, we initiated a project for the integration of order routing into the portfolio management system. In the project for the automation of statutory reporting in the area of finance, we were able to make further significant progress. In 2007, this project will lead to the implementation of the calculation of capital requirements in accordance with Basel II. This involves considerable costs for the introductory work and future license fees. 2007 will also see the implementation of the EU Financial Markets Directive. Significant details are expected to be announced initially in the first half of the year by means of regulations by the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin - German Financial Supervisory Authority). The rules must be implemented in a very short period of time, by 1 November 2007. All in all, we are extremely concerned about the fact that the regulatory costs for the bank will continue to rise significantly. These costs have therefore now taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. We are sceptical as to whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for banks.

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

Counterparty risk

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

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

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

In line with our clients' needs, before a loan is approved we examine the various options available for structuring a credit facility. These include, for example, syndications and loan securitisation using promissory note loans, or the issue of bonds. Furthermore, netting agreements or agreements over the backing of market values are entered into, especially in the case of derivative transactions.

Where appropriate, for example in the case of long-term financing or pure securities market loans, collateral is generally taken. The valuation of collateral is regularly reviewed.

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

The new minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht ~ BaFin) in December 2005. The Bank's Management Board has duly delegated loan approval authority, in accordance with the statutory provisions, in relation to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

The Bank's Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. The credit risk strategy approved by the Credit Committee of the Supervisory Board provides a framework for decisions in this area.

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

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

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

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

Each credit risk must be assessed annually, or more frequently where the credit rating is lower, and subjected to the approvals procedure. This procedure verifies whether the previous rating is still justified and whether the profitability of the client relationship is proportional to the risk involved.

Credit risk monitoring is conducted by applying a risk limit system. It includes daily monitoring to make sure that approved lines of credit are not being exceeded. In the case of non-performing or doubtful debts, teams from the client relationship, credit and legal departments work out strategies and solutions.

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

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

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

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

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

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

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

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

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

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

Basel II

Central to the Basel II framework, which was adopted into national law in 2006 by means of the introduction of a German solvability regulation is the changing of the regulatory equity capital requirements governing the credit industry. HSBC Trinkaus & Burkhardt will use the transitional regulation of the solvability regulation and implement the base IRB approach (internal ratings based) as of 1 January 2008. The introduction of the IRB approach, will lead to a very differentiated consideration and quantification of the credit risk. The Bank intends to introduce an internal rating system to enable the risk-sensitive controlling of its portfolio in compliance with the capital adequacy requirements and to implement risk-adjusted controlling based on this system throughout the Bank.

The Basel II requirements are being implemented at HSBC Trinkaus & Burkhardt by a central project group set up to coordinate implementation in the fields of credit, accounting and IT. With a view to the introduction of the IRB approach, the Bank introduced a new Basel-II compliant client rating system in 2005. The improvement of the IT systems for the recording and archiving of rating information was a strong focus in 2006. In 2006, HSBC Trinkaus & Burkhardt submitted an application to Federal Financial Supervisory Authority (BaFin) for approval of the base IRB approach. The inspection for certification of the internal rating system by the German banking supervisory authority is planned for the first quarter of 2007.

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

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

Operational Risks

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

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

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

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

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

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

The minutes of the Committee meetings are presented to the Management Board for approval. This ensures that all board members are constantly informed about current developments and the Bank’s risk profile.

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

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

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

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

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

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

Market risks

Market risks are the potential losses on trading positions which can arise from unexpected changes in the market prices of securities and currencies, interest rates and volatilities, dividend estimates and correlations. Market risks in proprietary trading arise exclusively from interest rate, equity and foreign exchange activities, as well as to a lesser extent raw materials activities without a physical delivery.

To measure market risks under normal market conditions we have been using for many years a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Our value-at-risk model is based on a historical simulation of risk factors over a period of 500 trading days and covers interest rate, equity, foreign exchange and volatility risks. Interest rate risk embraces both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. Spread risks from other interest-rate positions are not included in the model in view of their minimal importance for proprietary trading. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits. Raw materials risk are limited internally by means of various limits (including limits for sensitive and special stress scenarios).

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

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

The model (excluding the specific interest-rate risk), with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to the Bank's trading book market risk pursuant to the capital ratio according to the German Banking Act. The model-specific add-on factor currently amounts to 3.2.

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

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

For risk assessment quality assurance purposes we also conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day’s trading position with the value-at-risk calculated for that position. In 2006, no back- testing anomalies were found anywhere throughout the Bank, a fact which suggests that the risk modelling employed is probably still on the conservative side.

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

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions. The limits used here are assigned once a year taking into account the ability to assume risk determined by the Asset and Liability Management Committee’s capital allocation decisions. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the limits are automatically reduced. Owing to the favourable trend in earnings, it was not necessary to reduce the risk limits in the latest financial year. The Market Risk Controlling department also monitors the limits prescribed by HSBC, and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner. Market risks arising from the investment of equity capital components are allocated to the Bank's investment book. These risks are determined outside the risk models and are controlled at executive management level.

Liquidity Risks

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

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

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

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

Staff

Number of employees

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

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

Training

In view of the continuing fierce competition in the banking industry, the technical and social skills of our employees are of the utmost importance, because only highly qualified personnel are capable of meeting the exacting quality standards that we and our customers demand. Taking this into consideration, we pay particular attention to the further training of our employees. For example, we help them to advance by providing product-specific training, leadership seminars and communication training, as well as PC and IT seminars, foreign language courses and secondments abroad. When selecting vocational training activities, we play close attention to the special requirements placed on our employees in various areas of business.

Performance-related

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

Thanks

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

Shareholders and Shares

Shareholders

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

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

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

Share price and market value

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

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

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

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

Dividends

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

Düsseldorf, 6 February 2007

The Management Board

HSBC Trinkaus & Burkhardt AG
Düsseldorf

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Consolidated Balance Sheet

Profit and Loss Account

Consolidated Statement of Changes in Equity

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Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

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

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

Consolidated Profit and Loss Account
HSBC Trinkaus & Burkhardt

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

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

Earnings per Share

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

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

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

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

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

Comprehensive Profit for the Period

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

Consolidated Cash Flow Statement
HSBC Trinkaus & Burkhardt

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

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

Notes to the Consolidated Accounts

Accounting Principles

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

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

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

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

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

Accounting, Valuation and Consolidation Methods

1 The Group

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

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

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

2 Consolidation Principles

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

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

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

3 Foreign Currency Translation

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

The conversion of forward exchange dealings takes place at the relevant forward rate for the balance sheet date. Spot exchange transactions and assets and debts held in foreign currency are translated at the official reference rate of the European Central Bank, or other suitable spot rates on the last trading day of the year.

Expenses or income from the translation of foreign currency are entered under the same item in the profit and loss account as the corresponding expenses or income from the underlying deal.
The translation of transactions by foreign subsidiaries takes place in accordance with the modified reporting date method; balance sheet items are translated using the appropriate daily rate of exchange, expenses and income, on the other hand, are translated at the relevant average rate. Translation gains or losses arising from capital consolidation are offset against the Group’s retained earnings. Translation gains or losses with and without an effect on current results had no significant impact in the 2006 financial year, as in the previous year.

4 Financial Instruments: Recognition and Valuation

Financial instruments are reported in the balance sheet for the first time when the Group becomes a contractual party to the agreement in question. Financial instruments are (partially) eliminated from the accounts as soon as the Group no longer carries the relevant risks and opportunities associated with the financial instrument.

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

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

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

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

Impairments which lead in the wake of the complete or partial uncollectibility of a financial asset to a reduction in the fair value below the amortised cost price are taken into account. Impairments on Impairment tests are conducted on the date of each interim report.

5 Loans and Advances

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

6 Risk Provisions in the Lending Business

Risk provisions in the credit business covers risk provisions for asset receivables and provisions for credit risks. A distinction is drawn with respect to risk provisions in the lending business between specific bad debt charges and general bad debt charges on a portfolio basis.

On an individual transaction basis, provisions are calculated individually for each borrower with regard to balance sheet loans and off-balance sheet transactions. The Credit Department therefore classifies all borrowers in one of 22 categories using a Group-wide, standardised internal credit rating (see also the “Risk Management” section of the Group Management Report). The debtor’s country of domicile is also relevant.

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

In addition bad debt charges/provisions are created on a portfolio basis: Provided there is no substantial objective evidence of an impairment of individual assets, these assets will be aggregated into a group with comparable default risks (portfolio)/ a general bad debt charge will then be calculated for each of these portfolios on the basis of historical default probabilities.

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

7 Financial Assets and Financial Liabilities held for Trading

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

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

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

Owing to the broad product spectrum, the prices and quotations are differentiated as far as possible, for example by maturity, strike price, etc. The selection of the data sources used, as well as the allocation of the valuation parameters applied and the valuation methods to be used to the respective financial instruments, is carried out independently of trading.

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

8 Pension and Securities Loans Transactions

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

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

The bank does not perform false pension transactions.

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

9 Financial assets

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

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

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

10 Shares in companies evaluated at equity

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

11 Property and Equipment

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

The property and buildings are used almost entirely for the banking business. The valuation takes place in accordance with the acquisition cost model.

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

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

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

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

Profits/losses from the disposal of property and equipment totalling €0.3 million (2005: €10.2 million) were shown net in Other Income (cf. Note 50). Repairs, maintenance and other measures required for the upkeep of property and equipment are recorded as expenses in the financial year in which they were incurred.

12 Intangible assets

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

13 Leasing

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

14 Liabilities

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

15 Bonds and Shares issued by the Bank

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

16 Other Provisions

Pension provisions and uncertain liabilities are reported under provisions.

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

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

17 Income Tax Claims and Obligations

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

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

18 Share-based Payments

The Group employees have the opportunity to participate in a stock option program offered by the parent company HSBC Holdings plc. This remuneration programme is graduated according to different blocking periods (1 to 5 years). In accordance with IFRS 2, this option programme is reported on the balance sheet as an asset-based payment transaction settled by means of equity instruments. The share options are valued at fair value. The personnel expenses derived from this – apportioned to the respective blocking period – are reported in the profit and loss account.

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

19 Reporting of Income and Expense

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers and income from financial assets. Interest expense includes expenses from client accounts and deposits by banks as well as liabilities in certificate form and subordinated capital. The bank reports dividends at the time of the legal creation of the dividend entitlement with an effect on profits. Income from joint ventures is recognised on an accrual basis.

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

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

20 IFRS Regulations Applied

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

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

IFRS 7, Financial Instruments: Disclosures must be taken into account for annual financial statements that begin on 1 January 2007 or later. We will therefore apply IFRS 7 in fiscal year 2007. IFRS 7 comprehensively revises reporting for financial instruments. No material changes in the balance sheet and in the profit and loss account are to be expected from a corresponding change in the reporting of financial instruments.

We have also dispensed with the early application of the changes to IAS 1 resulting from IFRS 7 for the presentation of capital management targets and methods.

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

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

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

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

21 Noteworthy Events occurring after the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

22 Cash reserves

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

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

23 Loans and Advances to Banks

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

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

24 Loans and Advances to Customers

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

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

25 Risk provisions in Credit Business

Risk provisions are composed as follows:

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

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

Risk provisions in credit business developed as follows:

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

26 Financial Assets held for Trading

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

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

27 Financial Assets

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

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

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

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

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

28 Shares in Companies evaluated at Equity

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

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

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

29 Statement of Changes in Assets

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

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

30 Income Tax Claims

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

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

31 Other Assets

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

32 Subordinated Assets

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

33 Repurchase Transactions

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

34 Deposits by banks

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

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

35 Customer Accounts

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

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

36 Securitised Debt

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

37 Financial Liabilities held for Trading

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

The issue and placement of discount certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading departments. These issues are accordingly recognised as ‘Financial liabilities held for trading’ pursuant to IAS 39, and valued at fair value. The decrease in the negative market value of the derivatives corresponds to the decreasing positive market value of the derivatives (cf. Note 26).

38 Provisions

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

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

Provisions for Pensions and similar Obligations

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

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

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

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

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

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

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

The expected returns were determined based on the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2006 as there were no major deviations between the expected and actual returns in the funds in the year under report.
The provision for pensions and similar obligations also includes the obligations from semi-retirement, early retirement and anniversary payments.

Development of Pension Obligations

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

Breakdown of Pension Obligations

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

Development of the Fair Value of Plan Assets

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

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

Breakdown of the Fair Value of Plan Assets

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

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

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

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

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

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

39 Income Tax Obligations

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

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

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

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

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

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

*Balance from valuation differences in all trading activities

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

40 Other Liabilities

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

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

41 Subordinated Capital

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

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

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

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

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

Interest and Repayment of Subordinated Liabilities

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

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

42 Equity Capital

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

The Management Board is authorised to raise share capital by € 23.0 million by 31 May 2008, with the consent of the Supervisory Board, through one or more issues of new bearer shares against payment in cash or in kind (authorised capital).

A contingent capital increase of up to € 13.5 million was realised through the issue of bearer shares This contingent capital increase will only take place to the extent that the holders of conversion or option rights arising out of either convertible or option bonds or participatory certificates with conversion or option rights, issued on the basis of the resolution on authorisation by the Annual General Meeting dated 3 June 2003 and no later than 31 May 2008, exercise their conversion or option rights (contingent capital).

Valuation Reserve for Financial Instruments

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

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

Equity Capital in accordance with KWG

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

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

Equity Capital in accordance with BIS

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

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

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

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

Notes to the Consolidated Profit and Loss Account

43 Net Interest Income

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

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

44 Result from Shares in Companies evaluated at Equity

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

45 Risk Provisions in Credit Business

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

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

46 Net Fee Income

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

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

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

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

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

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

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

47 Trading Profit

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

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

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

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

48 Total Administrative Expenses

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

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

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

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

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

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

The expenses for retirement benefits are broken down as follows:

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

49 Net income from Investment Securities

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

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

50 Other Income

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

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

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

51 Income Tax

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

As in the previous year, the corporation tax rate for profits received and distributed will be 25 % in 2006. A solidarity surcharge of 5.5 % will once again be levied on corporation income tax payable, making the effective rate of corporation tax 26.4 %. Taking trade income tax into account, combined taxes on income for 2006 were unchanged at 40.4 %. This rate was also used in calculating deferred taxes. Income that is subject to taxation in Luxembourg, the tax rate is 29.6%.

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

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

52 Calculation of Operating Profit

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

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

53 Notes to the Cash Flow Statement

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

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fees and commissions, trading profit and the balance of other operating expenses and income, minus total administrative expenses and regular risk provisions.

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

Cash and Cash Equivalents

As in the previous year, the cash and cash equivalents of €436.3 million (2005: 798.6 million) correspond to the ‘cash reserve balance sheet’ item, which comprises cash in hand plus balances at central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rate changes were to be taken into consideration.

Cash flow from Operating Activities

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

The Group’s net income of € 114.6 million (20085: € 117.4 million) is the input figure for the cash flow statement. The gross cash flow before any commitment of capital, which is shown as a sub-total arising from operating activities, €180.2 million amounts to (2005: € - 9.2 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash flow from Investment Activities

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

Cash Flow from Financing Activities

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

Other Notes

54 Segment Reporting

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

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

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

Private Banking

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

Corporate Banking

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

Institutional Clients

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

Proprietary Trading

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

Central Divisions/Consolidation

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

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

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

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

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

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

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

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

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

The significant increase in financial assets in the previous year resulted mainly from special factors within the scope of the transfer of securities settlement to the newly-founded company International Transaction Services GmbH (ITS) as well as the foundation of a Contractual Trust Arrangement (CTA) to secure pension obligations. These special factors did occur alongside any extraordinary transactions in the year under report.

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

Segmental income is broken down into net interest income, result from shares in companies evaluated at equity, fee income and trading income The difference between the standardised risk-related costs charged on the business segments (credit rating-related surcharges on drawings and on limits not utilised) and the risk costs in the profit and loss account is allocated to the Central Divisions. Wherever possible, total administrative expenses are charged to divisions if possible according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

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

*Annual average

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

The cost-income ratio reveals the ratio of total administrative expenses to income before risk provisions. It measures the divisions cost efficiency. This figure improved year-on-year in the areas of private banking, institutional customers and proprietary trading as a result of their proportionately higher increases in income in comparison with cost increases. It remained the same for corporate banking business.

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

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

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

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

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

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

55 Fair Value of Financial Instruments

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

Details of the valuation can be found in Note 7.

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

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

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

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

56 Holdings in Foreign Currency

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

57 Details of Significant Concentrations of Assets and Liabilities

The Group's lending and deposit activities are well diversified, although a certain amount of concentration in the German Blue-Chip segment is emerging, as can be seen from the breakdown of loans to companies by size. The risk of default is well spread across the various sectors. As of 31 December 2006, there were no significant large exposures which could lead to a concentration of assets, liabilities or off-balance sheet business.

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

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

Breakdown of credit volumes by Sector

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

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

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

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

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

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

58 Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits In accordance with Article 36 of the German Directive on Accounting for Banks and Financial Services Institutions, the analysis of derivatives business follows the recommendations of the Accounting Committee of the National Association of German Banks (Bundesverband deutscher Banken e.V – BdB). Pursuant to international standards, the stated market values of deals represent the replacement values on the balance sheet date that may arise in the event of a default of all counterparties, regardless of their individual credit rating. No account is taken of enforceable netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these products.

Breakdown of the derivatives business by nominal amount

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

Breakdown of the derivatives business by market value

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

Breakdown of positive market values by counterparty

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

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

59 Breakdown by Residual Maturity

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

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

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

60 Contingent Liabilities and Other Obligations

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

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

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

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

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

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

61 Assets Pledged as Collateral

Securities with a nominal value of €503.3 million (2005: €1,052.5 million) were deposited as collateral for transactions on Eurex and for securities lending transactions.

On the balance sheet date bonds with a nominal value of € 1, 878.3 million (2005: € 1, 637.3 million) were available to secure peak rediscounting facilities.

62 Trust Activities

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

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

63 Participating Interests

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

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

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

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

64 Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully consolidated companies of the Group are in a position to fulfil their contractual obligations. For a complete list of these companies, please refer to the table of participating interests held by HSBC Trinkaus & Burkhardt AG given in Note 63. Moreover, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current general partners (if individual legal persons) of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided the managing partners are natural persons.

65 Staff

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

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

66 Auditors' Fees

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

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

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

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

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

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

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

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

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

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

Emoluments of Members of the Executive Bodies

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

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

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

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

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

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

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

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

None of the Managing Partners acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other remuneration based on the banks own shares were granted. The employees' representatives in the Supervisory Board basically have the right to participate in the share option programme for employees described under Note 68. Minor use was made of this right.

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

68 Share-Based Payments

Breakdown of the Share Option Programme

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

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

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

Development of the Share Option Programme

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

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

Breakdown of the Share Programme

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

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

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

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

70 Mandates held by Members of the Management Board

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

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

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

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

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

71 Mandates held by Other Employee

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

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

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

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

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

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

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

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

72 Other Mandates held by Supervisory Board Members

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

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

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

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

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

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

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

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

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

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

73 Publication

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

Auditors' Report

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

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

Our audit did not lead to any reservations.

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

Düsseldorf, 14 February 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Becker	Kügler
German Public Auditor	German Public Auditor

ANNEX C

Annual Report 2005 HSBC Trinkaus & Burkhardt KGaA

The Annual Report 2005 of HSBC Trinkaus & Burkhardt KGaA is reproduced on the following pages and separately paginated (103 pages, from page C-2 through page C-104).

Annual Report 2005
HSBC Trinkaus & Burkhardt KGaA

HSBC Trinkaus & Burkhardt
Bank since 1785

Report of the
Managing Partners

Group Management Report

The Group
The Business Divisions
Strategy
The 2005 Financial Year
Economic Environment
Profitability
Assets
Financial Position
Outlook
Risk Management
Staff
Shareholders and Shares

The Group

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

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

HSBC Trinkaus & Burkhardt KGaA

HSBC Trinkaus & Burkhardt (International) SA
Luxembourg

HSBC Trinkaus Investment Managers SA
Luxembourg

HSBC Trinkaus Investment Management Ltd.
Hong Kong

HSBC Investments Deutschland GmbH
Düsseldorf

Internationale Kapitalanlagegesellschaft mbH
Düsseldorf

International Transaction Services GmbH*
Düsseldorf

HSBC Trinkaus & Burkhardt Immobilien GmbH
Düsseldorf

HSBC Trinkaus Consult GmbH
Düsseldorf

HSBC Trinkaus Immobilien Beteiligungs-KG
Düsseldorf

HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH
Düsseldorf

Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH
Düsseldorf

HSBC Trinkaus Private Wealth GmbH
Düsseldorf

Grundstücksgesellschaft Trinkausstraße KG
Düsseldorf

Joachim Hecker Grundbesitz KG
Düsseldorf

Dr. Helfer Verwaltungsgebäude Luxemburg KG
Düsseldorf

* consolidated at equity

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

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

The Business Divisions

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

Executive Management

Central Functions A

Andreas Schmitz
Chairman of the Managing Partners (Spokesman)

Company Secretariat
Compliance
Audit

Central Functions B

Paul Hagen
Managing Partner

Accounting
Controlling
Market Risk Control

Central Functions C

Dr. Olaf Huth
Managing Partner

Personnel
Press & Publicity

Division I

Dr. Olaf Huth
Managing Partner

Private Banking

Division II

Andreas Schmitz
Managing Partner

Corporate Banking
International Business
Corporate Finance
Primary Markets

Manfred Krause
Member of the Extended Management

Corporate Banking
International Business

Division III

Carola Gräfin von Schmettow
Managing Partner

Institutional Clients
Asset Management

Division IV

Carola Gräfin von Schmettow
Managing Partner

Proprietary Trading
Treasury
Treasury Management Group

Division V

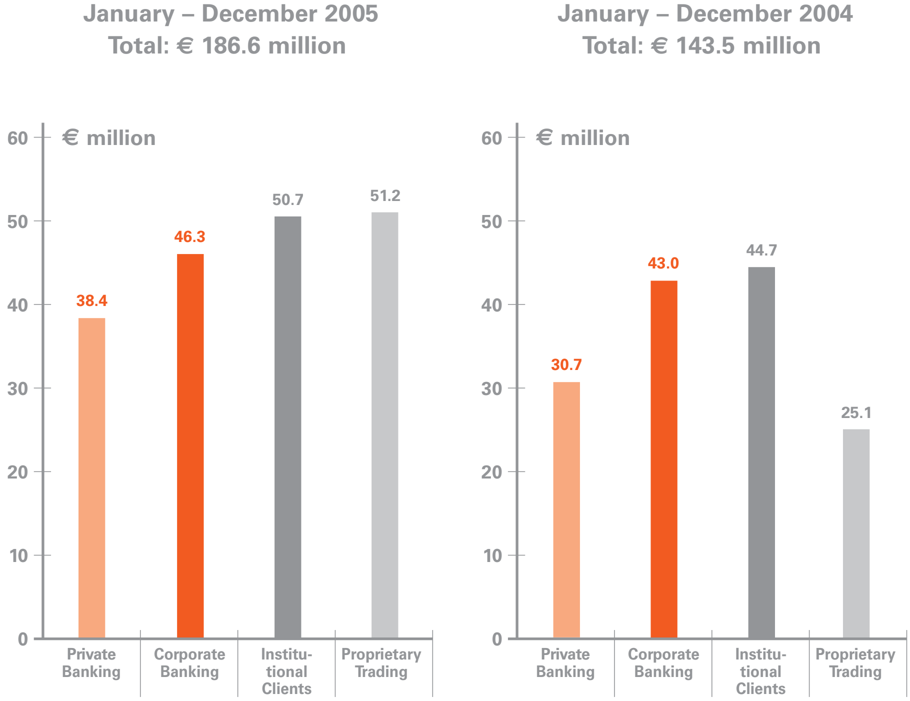
Paul Hagen
Managing Partner

Credit Operations
Business Process Development
Information Technology

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

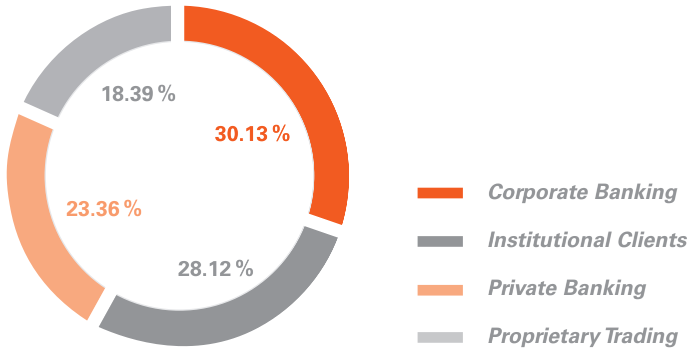
Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit



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

Five-year average profit contributions



Strategic Direction

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

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

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

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

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

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

- We continuously analyse our activities in order to gear them towards optimally meeting the national and international needs of our existing and future clients. Our decisions are made with the focus on our clients and we attach the greatest importance to personnel continuity in servicing our clients.
- Financial innovation is our strength, because the application of wide-ranging expertise is the only way to successfully deliver value-added banking.
- We are constantly expanding our range of securities settlement services for other financial institutions. The securities settlement joint venture with T-Systems underlines our ambition to become the best securities settlement bank in Germany with the joint subsidiary International Transaction Services GmbH (ITS).
- We can draw on the resources of one of the largest banking groups in the world, the HSBC Group. This applies to both technical product know-how and the regional network.

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

- We must foster long-term relationships with our clients, providing them with the growing number of increasingly complex financial services they require within the framework of trust born of relationship banking.
- We must develop the regional links and the product knowledge of the HSBC Group for our clients without having to make compromises in terms of their requirement of an individualised private bank servicing concept.
- We must ensure that we have a cutting-edge systems technology infrastructure to meet the most demanding requirements throughout the entire value added chain, and we must offer our services at a competitive price and in a client-friendly manner.
- We must invest in staff training and qualifications in order to establish our value-added banking in the market place increasingly on an international level as well.
- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair remuneration which is in line with the market.

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

The 2005 Financial Year

The economic environment

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

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

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

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

Profitability

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

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

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

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

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

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

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

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

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

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

The asset situation

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

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

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

The financial position

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

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

Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Management

Principles of risk management policy

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

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. We avoid liquidity risk as far as possible and are prepared to accept lower profits as a consequence. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the related costs. Furthermore, the bank has taken out adequate insurance.

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

Risk management organisational structure

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

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

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

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

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

Strategic risk

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

The Bank's strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent upon our clients' activities on the equity, bond, foreign exchange and derivatives markets and also on the capital markets' capacity to absorb new issues of interest rate and equity products. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for wealthy private clients, can only counteract this risk to a limited extent. Thanks to our stronger integration into the HSBC Group, we can counteract this risk in a targeted way through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

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

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

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

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

Counterparty risk

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

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

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

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

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

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

The new minimum requirements for the credit business of financial institutions laid down by the Federal Financial Supervisory Authority (Bundesanstalt für Finanz-dienstleistungsaufsicht ~ BaFin) in December 2002 are being consistently complied with. The Bank's Managing Partners have duly delegated loan approval authority, in accordance with the statutory provisions, in relation to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

The Credit Committee makes decisions on loan commitments which exceed a certain limit, the limit being determined by the client's creditworthiness and the term of the loan. Larger loans, when approved by the Bank's Credit Committee, then require the approval of the Credit Working Party of the Shareholders' Committee, which observes the Shareholders' Committee obligations laid down in the Articles of Association.

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

Each credit risk must be assessed annually, or more frequently where the credit rating is lower, and subjected to the approvals procedure. This procedure verifies whether the previous rating is still justified and whether the profitability of the client relationship is proportional to the risk involved.

Credit risk monitoring is conducted by applying a risk limit system. It includes daily monitoring to make sure that approved lines of credit are not being exceeded. The system also serves as a basis for notifying the Bundesbank of large exposures and loans and is used in addition to generate internal statistical data and numerous reports.

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

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

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

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

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

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

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

Basel II

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

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

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

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

Operational risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market risks

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

To measure market risks under normal market conditions we have been using for many years a value-at-risk approach. We understand value-at-risk to be the potential loss which will, with 99 % probability, not be exceeded within one trading day, assuming unaltered trading positions, in the event of an unfavourable market trend. Our value-at-risk model is based on a historical simulation of risk factors over a period of 500 trading days and covers interest rate, equity, foreign exchange and volatility risks. Interest rate risk embraces both general interest rate risk resulting from a change in the level of market rates and also spread risk between government bonds, swaps and Pfandbriefe. Spread risks from other interest-rate positions are not included in the model in view of their minimal importance for proprietary trading. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits.

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

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

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

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

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

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions. The limits used here are assigned once a year on the basis of an analysis of capacity to assume risk and also the Asset and Liability Management Committee's capital allocation decisions. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the limits are automatically reduced. Owing to the favourable trend in earnings, it was not necessary to reduce the risk limits in the latest financial year. The Market Risk Controlling department also monitors the limits prescribed by HSBC, and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner. Market risks arising from the investment of equity capital components are allocated to the Bank's investment book. These risks are determined outside the risk models and are controlled at executive management level.

Liquidity risk

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

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

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

Staff

Number of employees

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

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

Training and development

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

Performance-related remuneration

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

Thanks

The Bank owes its success to the commitment and performance of our employees, and we would like to take this opportunity to thank them all. We would also like to thank the Employees’ Council and the staff representatives on the Supervisory Board for their constructive and trusting cooperation in the latest financial year.

Shareholders and Shares

Shareholders

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

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

Share price and market value

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

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

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

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

Dividend

For the 2005 financial year, we propose paying a dividend of € 2.50 per share (2004: € 2.25), thus ensuring that our shareholders participate suitably in the increase in profits.

Düsseldorf, 10 February 2006

The Managing Partners

HSBC Trinkaus & Burkhardt
Kommanditgesellschaft auf Aktien
Düsseldorf

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Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

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

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

Consolidated Profit and Loss Account HSBC Trinkaus & Burkhardt

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

Appropriation of net income:

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

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

Earnings per share

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

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

Cost/Income ratio

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

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Subscribed capital	Capital reserve	Retained earnings	Balance sheet profit	Minority	Equity
As at 31.12.2003	**70.0**	**210.5**	**410.3**	**57.3**	**0.1**	**748.2**
Distribution of balance sheet profit				- 45.7		- 45.7
Retention from 2003 balance sheet profit			6.9	- 6.9		0.0
Changes in value resulting from currency differences				0.0		0.0
Addition from net income				78.4		78.4
Gains/losses not recognised in P & L			6.6			6.6
2004 profit attributable to minority shareholders				0.0		0.0
As at 31.12.2004	**70.0**	**210.5**	**423.8**	**83.1**	**0.1**	**787.5**
Distribution of balance sheet profit				- 58.7		- 58.7
Retention from 2004 balance sheet profit			18.9	- 18.9		0.0
Changes in value resulting from currency differences				0.0		0.0
Addition from net income				117.9		117.9
Gains/losses not recognised in P & L			- 2.1			- 2.1
2005 profit attributable to minority shareholders					- 0.1	- 0.1
As at 31.12.2005	**70.0**	**210.5**	**440.6**	**123.4**	**0.0**	**844.5**

Appropriation of net income:

€ million	2005	2004
Net income	117.9	78.4
Gains/losses not recognised in P&L	- 2.1	6.6
of which from financial instruments	1.6	16.7
of which from properties and buildings	9.7	0.0
of which from actuarial gains/losses	- 13.4	- 10.1
Total	**115.8**	**85.0**

Consolidated Cash Flow Statement
HSBC Trinkaus & Burkhardt

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

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

Notes to the Consolidated Accounts

Accounting Principles

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

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

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

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

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

Accounting, Valuation and Consolidation Methods

1 The Group

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

In the year under report, one domestic special fund which we transferred to a trust company within the scope of a Contractual Trust Arrangement to secure pension claims as plan assets, ceased to be part of the Group (cf. Note 15).

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

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

2 Consolidation Principles

Group entities have been consolidated using the same method as in the previous year. Differences arising from the consolidation are calculated on the basis of the value of the new companies on the date of acquisition.

Intra-Group claims and liabilities, contingent liabilities, expenses and revenue have been offset against each other; furthermore, we have waived the elimination of intercompany profits of lesser importance.

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

3 Foreign Currency Translation

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

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

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

4 Financial Instruments: Recognition and Valuation

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

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

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

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

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

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

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

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

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

Impairment tests are conducted on each balance sheet date.

5 *Loans and Advances*

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

6 Risk Provisions

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

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

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

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

7 Financial Assets and Financial Liabilities Held for Trading

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

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

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

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

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

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

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

8 Financial Assets

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

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

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

9 Property and Equipment

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

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

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

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

10 Intangible Assets

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

11 Leasing

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

12 Liabilities

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

13 Provisions

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method. Actuarial profits and losses are disclosed under Equity Capital with no effect on profits. Within the scope of a Contractual Trust Arrangement (CTA) certain financial assests were transferred to a trust corporation as collateral for pension obligations and therefore qualified as plan assets within the meaning of IAS 19.7 (cf. Note 15). Provisions for taxes and uncertain liabilities are created in amounts equal to the anticipated claims.

14 Deferred Taxes

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

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

15 Contractual Trust Arrangement

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

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

16 Share-based Payments

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

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

17 Reporting of Income and Expense

Interest income and expense are recognised on an accrual basis. Interest income includes income from loans and advances to banks and customers and income from financial assets. Interest expense includes expenses from client accounts and deposits by banks as well as liabilities in certificate form and subordinated capital. The Bank reports dividends at the time of the legal creation of the dividend entitlement with an effect on profits. Income from joint ventures is recognised on an accrual basis.

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

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

18 Changes in Accounting, Valuation and Consolidation Methods

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

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

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

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

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

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

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

19 Noteworthy Events occurring after the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

20 Cash Reserves

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

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

21 Loans and Advances to Banks

€ million	31.12.2005	31.12.2004
Current account	301.1	333.8
Money market	2,822.2	1,912.1
of which overnight money	63.6	0.0
of which term money	2,758.6	1,912.1
Reverse repos	1,251.6	144.4
Other loans and advances	187.0	140.7
Total	**4,561.9**	**2,531.0**
of which German banks	2,140.5	698.4
of which foreign banks	2,421.4	1,832.6

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

22 Loans and Advances to Customers

€ million	31.12.2005	31.12.2004
Current account	860.9	754.0
Money market	923.2	1,105.4
of which overnight money	164.4	194.4
of which term money	758.8	911.0
Loans	680.4	725.4
Reverse repos	70.9	0.0
Other loans and advances	18.6	51.9
Total	**2,554.0**	**2,636.7**
of which German customers	2,016.6	2,147.2
of which foreign customers	537.4	489.5

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

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

23 Risk Provisions

€ million	Specific bad debt charges		General bad debt charges on a portfolio basis		Total	
	2005	2004	2005	2004	2005	2004
As at 1.1.	43.6	52.6	8.7	7.4	52.3	60.0
Write-backs	11.9	5.4	2.2	0.0	14.1	5.4
Applications	3.6	9.6	0.0	0.0	3.6	9.6
Additions	4.5	6.0	0.0	1.3	4.5	7.3
Currency differences	0.3	0.0	0.0	0.0	0.3	0.0
As at 31.12.	**32.9**	**43.6**	**6.5**	**8.7**	**39.4**	**52.3**

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

Breakdown of Risk Provisions

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

Credit Exposure and Key Risk Provision Figures

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

[1] Net risk provisions: Additions minus write-backs of bad debt charges and provisions, plus the balance of direct write-offs and receipts of amounts previously written off.

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

Borrowers in Germany accounted for € 3,286.0 million (2004: € 2,300.5 million) of all credit extended foreign borrowers accounted for € 706.6 million (2004: € 621.3 million).

24 Overview of Financial Assets Held for Trading

€ million	31.12.2005	31.12.2004
Bonds and other fixed income securities	1,576.8	1,553.3
Public issuers	100.3	103.5
Other issuers	1,476.5	1,449.8
Of which:		
Listed	1,555.9	1,523.2
None listed	20.9	30.1
Equities and other non-fixed-income securities	854.6	651.5
Of which:		
Listed	691.6	616.8
Unlisted	163.0	34.7
Marketable assets	1,803.9	1,890.5
Positive market value of derivatives	2,235.3	2,120.3
Of which:		
OTC derivatives	1,859.5	1,957.2
Listed derivatives	375.8	163.1
Total	**6,470.6**	**6,215.6**

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

25 *Overview of Financial Assets*

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

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

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

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

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

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

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

€ million	
Book value 31.12.2004	**0.0**
Additions from shares in affiliated companies	8.2
Share of profit for the 2005 financial year	0.9
Proportionate interim profit elimination where attributable to book value of joint venture	- 9.1
Book value 31.12.2005	**0.0**

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

26 Property, Equipment and Intangible Assets

€ million	Property and equipment	Software	Total
Acquisition costs 1.1.2005	60.1	57.3	117.4
Additions	9.0	5.5	14.5
Disposals	8.5	37.0	45.5
Acquisition costs 31.12.2005	60.6	25.8	86.4
Depreciation 1.1.2005	47.6	21.9	69.5
Planned depreciation	5.1	6.2	11.3
Unscheduled depreciation	0.0	0.0	0.0
Depreciation of disposals	7.5	10.2	17.7
Depreciation 31.12.2005	45.2	17.9	63.1
Residual book value 31.12.2005	**15.4**	**7.9**	**23.3**
Residual book value 31.12.2004	12.5	35.4	47.9

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

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

27 Other Assets

Other Assets, as of 31.12.2005, included tax rebate claims of € 1.4 million (2004: € 2.2 million) for current taxes. As in the previous year, where the relevant requirements were met, deferred tax rebate claims were netted out against deferred tax obligations. The balance is carried as a provision (cf. Notes 14 and 34).

28 Subordinated Assets

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

29 Repurchase Transactions

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

30 Deposits by Banks

€ million	31.12.2005	31.12.2004
Current account	395.2	310.6
Money market	795.1	496.7
of which overnight money	29.2	70.0
of which term money	765.9	426.7
Repos	184.3	57.9
Other liabilities	50.1	48.4
Total	**1,424.7**	**913.6**
of which German banks	380.8	473.6
of which foreign banks	1,043.9	440.0

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

31 Customer Accounts

€ million	31.12.2005	31.12.2004
Current account	3,454.2	2,800.0
Money market	3,246.1	2,651.8
of which overnight money	637.1	559.3
of which term money	2,609.0	2,092.5
Savings deposits	14.4	13.2
Other liabilities	424.9	462.1
Total	**7,139.6**	**5,927.1**
of which German customers	5,354.6	4,237.2
of which foreign customers	1,785.0	1,689.9

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

32 Securitised Debt

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

Liabilities include:

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

33 Financial Liabilities Held for Trading

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

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

34 Provisions

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

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

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

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

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

Deferred taxation claims and liabilities relate to the following items:

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

* Balance of valuation differences arising from all trading activities

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

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

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

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

%	31.12.2005	31.12.2004
Long-term base interest rate	4.0	4.5
Expected increase in salaries	3.0	2.5
Anticipated pension adjustment	2.0	1.5
Expected inflation rate	2.0	1.5
Expected increase in contribution assessment ceiling for national insurance	2.5	2.5
Expected return on assets	3.0 – 6.0	-

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

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

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

Development of Pension Obligations from Performance-related Plans

€ million	2005	2004
Pension obligations as of 1.1	**172.9**	**150.9**
Service costs	3.6	3.2
Interest expense	7.1	7.9
Pensions paid	- 9.0	- 7.2
Provisions for anniversary payments	1.0	0.7
Other allocations and transfers	3.6	0.0
Change in actuarial gains and losses	23.6	17.4
Pension obligations as of 31.12	**202.8**	**172.9**

Development of Plan Assets

€ million	2005	2004
Fair value of plans assets at time of transfer to CTA	**177.2**	**0.0**
Expected income from plan assets	3.2	0.0
Change in actuarial gains and losses	1.2	0.0
Fair value of plan assets as of 31.12.	**181.6**	**0.0**

Breakdown of Pension Obligations

€ million	2005	2004	2003	2002	2001
Cash value of pension obligations which are not fund-financed	**4.8**	**172.9**	**147.3**	**139.2**	**127.8**
Cash value of pension obligations which are fund financed	198.0	0.0	0.0	0.0	0.0
Fair value of plan assets	181.6	0.0	0.0	0.0	0.0
Plan cover shortage	**16.4**	**0.0**	**0.0**	**0.0**	**0.0**
Total pension obligations	**21.2**	**172.9**	**147.3**	**139.2**	**127.8**
of which actuarial gains and losses					
from plan assets	1.2	0.0	0.0	0.0	0.0
from pension obligations	- 48.9	- 25.3	- 7.9	- 5.1	0.0

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

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

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

Movements in Provisions

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

[1] This represents the net additions for legal rights to future pension payments.
[2] The Transfers column shows the effects of the establishment of the Contractual Trust Arrangement.

35 Other Liabilities

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

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

36 Subordinated Capital

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

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

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

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

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

Interest and Repayment of Subordinated Liabilities

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

Repayment	Nominal value € million 31.12.2005	Nominal value € million 31.12.2004
up to 1 year	10.2	0.0
over 1 year up to 5 years	82.6	92.8
over 5 years	183.2	148.2
Total	**276.0**	**241.0**

37 Equity Capital

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

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

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

Valuation Reserve for Financial Instruments

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

€ million	2005	2004
Valuation reserve for financial instruments as of 1.1.	**92.3**	**75.6**
Disposals	- 30.8	- 9.2
Market value fluctuations	32.4	22.4
Impairments	0.0	3.5
Valuation reserve for financial instruments as of 31.12.	**93.9**	**92.3**

Equity Capital in accordance with KWG

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

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

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

Equity Capital in accordance with BIS

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

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

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

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

Own Shares

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

Minority Interests

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

Notes to the Consolidated Profit and Loss Account

38 Net Interest Income

€ million	2005	2004
Interest receivable arising from	**218.3**	**174.1**
Loans and advances to banks	68.5	25.4
Money market business	59.8	19.3
Other interest-bearing loans and advances	8.7	6.1
Loans and advances to customers	81.7	71.6
Money market business	35.3	31.8
Other interest-bearing loans and advances	46.4	39.8
Financial assets	68.1	77.1
Interest income	61.1	71.9
Dividend income	1.7	2.6
Income from financial investments	4.4	2.6
Joint venture	0.9	0.0
Interest payable on	**143.7**	**104.8**
Deposits by banks	10.4	10.8
Money market business	6.9	7.3
Repos	0.0	0.6
Other interest-bearing deposits	3.5	2.9
Customer accounts	116.2	74.8
Money market business	70.2	39.4
Other interest-bearing customer accounts	46.0	35.4
Securitised debt	2.0	3.6
Subordinated capital	15.1	15.6
Net interest income	**74.6**	**69.3**

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

39 Risk Provisions in Credit Business

€ million	2005	2004
Additions (new)	4.5	7.3
Release	14.1	5.4
Direct write-offs	0.0	0.0
Recoveries of amounts previously written off	0.1	0.3
Total	**- 9.7**	**1.6**

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

40 Net Fee Income

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

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

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

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

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

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

41 Trading Profit

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

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

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

42 Total Administrative Expenses

€ million	2005	2004
Staff costs	186.7	162.7
Wages and salaries	158.1	131.1
Social security contributions	15.8	15.9
Retirement benefits	12.8	15.7
Other administrative expenses	88.4	73.5
Depreciation	11.3	13.1
Total	**286.4**	**249.3**

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

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

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

Retirement benefits and support break down as follows:

€ million	2005	2004
Expenses for performance-related plans	7.5	11.1
of which: current service costs	3.6	3.2
of which: interest expense	7.1	7.9
of which: expected income from plan assets	- 3.2	0.0
Expenses for contribution-related plans	3.7	3.7
Provisions for anniversary payments	1.0	0.7
Other expenses for retirement benefits	0.6	0.2
Total	**12.8**	**15.7**

43 Other Income

€ million	2005	2004
Result on financial assets	49.1	21.8
Net profit/loss on the disposal of property and equipment	10.2	0.2
Other operating income	6.7	5.8
Total	**66.0**	**27.8**

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

The net profit/loss on the sale of plant and equipment includes in particular the proportionate profit from the sale of our GEOS securities settlement system license to International Transactions Services GmbH of € 10.2 million.

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

44 Other Expenses

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

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

45 Income Tax

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

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

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

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

46 Development of the Profit and Loss Account – Calculation of Operating Profit

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

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

47 Earnings Per Share

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

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

48 Origin and Application of Value Added

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

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

Application of value added	2005		2004	
	in € m	in %	in € m	in %
Human resources (staff costs)	186.7	49.0	162.7	57.1
Public sector (taxes)	76.5	20.1	44.0	15.4
Shareholders (dividend)	65.3	17.1	58.7	20.6
Profit attributable to minority shareholders)	0.0	0.0	0.0	0.0
Companies (reserves/profit carried forward)	52.6	13.8	19.7	6.9
Value added	**381.1**	**100.0**	**285.1**	**100.0**

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

Notes to the Cash Flow Statement

49 Position and Movement in Cash and Cash Equivalents

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

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fees and commissions, trading profit and the balance of other operating expenses and income, minus total administrative expenses and regular risk provisions.

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

Cash and Cash Equivalents

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

Cash Flow from Operating Activities

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

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

Cash Flow from Investing Activities

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

Cash Flow from Financing Activities

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

Other Notes

50 Segment Reporting

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

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

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

Private Banking

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

Corporate Banking

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

Institutional Clients

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

Proprietary Trading

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

Central Divisions/Consolidation

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

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

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

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

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

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

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

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

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

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

*Annual average.

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

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

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

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

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

In line with movements in operating profits, there was a partly notable improvement in the return on equity in all segments, in some cases significantly exceeding the 20 % mark before tax on a direct costing basis.

The secondary segmental reporting criterion is allocation to regions as determined by the country of incorporation of the Group company concerned. This reveals the following picture of our business activities:

€ million		Germany	Luxem-bourg	Others	Consoli-dation	Total
Net interest income	2005	64.1	10.5	0.0	0.0	74.6
	2004	52.1	17.2	0.0	0.0	69.3
Risk provisions	2005	- 10.5	0.8	0.0	0.0	- 9.7
	2004	2.1	- 0.5	0.0	0.0	1.6
Net fees and commissions	2005	243.1	18.8	2.5	0.0	264.4
	2004	208.5	15.6	2.3	0.0	226.4
Trading profit	2005	72.2	2.1	0.0	0.0	74.3
	2004	53.4	1.0	0.0	0.0	54.4
Total administrative expenses	2005	270.7	15.0	0.7	0.0	286.4
	2004	235.0	13.7	0.6	0.0	249.3
Net income before tax	2005	176.2	16.4	1.8	0.0	194.4
	2004	100.1	20.4	1.7	0.0	122.2
Cost: income ratio, %	2005	62.0	46.5	29.2	-	60.8
	2004	69.9	40.9	25.1	-	66.8
Mandatory risk items	31.12.2005	7,031.0	568.0	0.0	- 408.0	7,191.0
	31.12.2004	6,299.0	569.0	0.0	- 429.0	6,439.0
Balance sheet total	31.12.2005	15,143.1	1,712.9	2.1	- 906.7	15,951.4
	31.12.2004	12,749.5	1,604.3	1.7	- 1,032.4	13,323.1

51 Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing and independent parties.

Details of the valuation can be found in Note 7.

Assets/liabilities held for trading as well as financial assets are reported in the balance sheet at market value, i.e., book value is equivalent to market value.

For other items in the balance sheet, the following differences are noted between fair value and reported book value.

€ million	31.12.2005 Fair value	Book value
Deposits by banks (from the valuation of long-term promissory note loans)	1,427.5	1,424.7
Customer accounts (from the valuation of long-term promissory note loans)	7,145.2	7,139.6
Securitised debt	46.5	45.3
Subordinated capital	330.1	308.1

Interbank funds, amounts receivable from customers and customer deposits are excluded from the valuation. Based on the short maturity of these transactions, the difference between fair value and book value is insignificant.

52 Foreign Currency

On 31.12.2005 assets denominated in foreign currency totalled € 1,833.0 million (2004: € 1,974.7 million) and the corresponding liabilities totalled € 2,232.7 million (2004: € 1,886.4 million). As in 2004, the bulk of these assets and liabilities were in US dollars.

53 Details of Significant Concentrations of Assets and Liabilities

The Group's lending and deposit activities are well diversified, although a certain amount of concentration in the German Blue-Chip segment is emerging, as can be seen from the breakdown of loans to companies by size. There is a good spread of sectoral risks and as at 31.12.2005 there were no significant large exposures which could lead to a concentration of assets, liabilities or off-balance sheet business.

Breakdown of credit volumes (as defined by the German Banking Act) by type of loan

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Cash loans	7,972.7	48.9	6,777.8	50.5
Reverse repos	1,322.5	8.1	144.4	1.1
Securities	3,295.0	20.2	3,119.3	23.2
Derivatives	1,773.8	10.9	1,726.5	12.9
Bank guarantees and letters of credit	1,491.4	9.1	1,114.1	8.3
Securities lending	384.3	2.4	473.2	3.5
Participations	67.2	0.4	64.6	0.5
Total	**16,306.9**	**100.0**	**13,419.9**	**100.0**

Breakdown of credit volumes by sector

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Banks and financial institutions	11,095.4	68.1	7,467.4	55.6
Companies and economically independent professionals	3,852.5	23.6	3,436.9	25.6
Public sector	920.4	5.6	1,792.3	13.4
Economically non-independent private clients	438.6	2.7	723.3	5.4
Total	**16,306.9**	**100.0**	**13,419.9**	**100.0**

Breakdown of credit volumes to companies and economically independent professionals by region

	31.12.2005 € million	31.12.2005 %	31.12.2004 € million	31.12.2004 %
Germany	3,031.4	78.7	2,939.2	85.5
Other European Union (including Norway and Switzerland)	633.8	16.5	337.6	9.8
Rest of Europe	3.9	0.1	5.5	0.2
Africa	5.4	0.1	9.1	0.3
North America	89.1	2.3	79.6	2.3
South America	63.9	1.7	62.1	1.8
Asia	23.6	0.6	3.6	0.1
Oceania	1.4	0.0	0.2	0.0
Total	**3,852.5**	**100.0**	**3,436.9**	**100.0**

Breakdown of credit volumes to companies and economically independent professionals by size

	31.12.2005 € million	31.12.2005 %	31.12.2004 € million	31.12.2004 %
Up to € 500,000	67.8	1.7	0.0	0.0
>€ 500,000 to € 2,500,000	296.6	7.7	125.2	3.6
>€ 2,500,000 to € 5,000,000	342.5	8.9	500.5	14.6
>€ 5,000,000 to € 10,000,000	580.4	15.1	512.4	14.9
>€ 10,000,000 to € 25,000,000	1,012.0	26.3	722.1	21.0
>€ 25,000,000 to € 82,634,000* (previous year: € 80,553,000	680.0	17.6	890.3	25.9
Over € 82,634,000* (previous year: € 80,553,000*)	873.2	22.7	686.4	20.0
Total	**3,852.5**	**100.0**	**3,436.9**	**100.0**

* Large exposure credit limit pursuant German Banking Act (Kreditwesengesetz – KWG).

Breakdown of credit volumes to companies and economically independent professionals by credit rating

	31.12.2005		31.12.2004	
	€ million	%	€ million	%
Credit Rating 1 – 3	3,692.9	95.9	3,248.4	94.5
Credit Rating 4 – 5	105.8	2.7	139.9	4.1
Credit Rating 6 – 7	53.8	1.4	48.6	1.4
Total	**3,852.5**	**100.0**	**3,436.9**	**100.0**

(cf. explanations in the section of this report entitled 'Risk Management' in the group management report)

54 *Derivatives Business*

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. In accordance with Article 36 of the German Directive on Accounting for Banks and Financial Services Institutions, the analysis of derivatives business follows the recommendations of the Accounting Committee of the National Association of German Banks (Bundesverband deutscher Banken e.V – BdB). Pursuant to international standards, the stated market values of deals represent the replacement values on the balance sheet date that may arise in the event of a default of all counterparties, regardless of their individual credit rating. No account is taken of enforceable netting agreements. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these products.

Breakdown of the derivatives business by nominal amount

€ million		Nominal amounts with a residual maturity of			Nominal amounts	Nominal amounts
		up to one year	over 1 year to 5 years	over 5 years	2005 total	2004 total
OTC-	FRAs	0	0	0	0	124
products	Interest rate swaps	4,320	15,466	12,054	31,840	35,254
	Interest rate options – purchases	1,545	2,791	3,264	7,600	7,109
	Interest rate options – sales	485	2,445	5,017	7,947	8,308
	Forward transactions	649	0	0	649	198
Exchange-	Interest rate futures	0	0	5,365	5,365	4,937
traded products	Interest rate options	0	0	0	0	18
Interest rate business		**6,999**	**20,702**	**25,700**	**53,401**	**55,948**
OTC-	Forward exchange contracts	19,547	1,162	0	20,709	15,660
products	Cross-currency swaps	4	35	0	39	1,305
	Currency options – purchases	2,148	648	0	2,796	1,488
	Currency options – sales	2,204	630	0	2,834	273
Exchange-						
traded products	Foreign exchange futures	0	0	22	22	44
Currency business		**23,903**	**2,475**	**22**	**26,400**	**18,770**
OTC-	Equity/index options – purchases	8	0	0	8	44
products	Equity/index options – sales	1	3	0	4	3
Exchange-	Equity/index futures	0	0	854	854	428
traded products	Equity/index options	4,708	4,201	143	9,052	5,425
Equity/index business		**4,717**	**4,204**	**997**	**9,918**	**5,900**
OTC-	Credit default swaps – purchases	10	10	0	20	15
products	Credit default swaps – sales	10	10	0	20	10
Credit business		**20**	**20**	**0**	**40**	**25**
Total financial derivatives		**35,639**	**27,401**	**26,719**	**89,759**	**80,643**

Breakdown of the derivatives business by market value

€ million		Positive market with a residual maturity of up to one year	over 1 year to 5 years	over 5 years	Positive market 2005 total	Positive market 2004 total	Negative market 2005 total	Negative market 2004 total
OTC-	FRAs	0	0	0	0	0	0	0
products	Interest rate swaps	41	427	697	1,165	1,191	1,158	1,283
	Interest rate options – purchases	21	74	172	267	206	0	0
	Interest rate options – sales	0	0	0	0	0	320	254
	Forward transactions	0	0	0	0	0	0	0
Interest rate business		**62**	**501**	**869**	**1,432**	**1,397**	**1,478**	**1,537**
OTC-	Forward exchange contracts	302	25	0	327	460	331	487
products	Cross-currency swaps	0	2	0	2	6	1	34
	Currency options – purchases	72	22	0	94	79	0	0
	Currency options – sales	0	0	0	0	0	87	2
Currency business		**374**	**49**	**0**	**423**	**545**	**419**	**523**
OTC-	Equity/index options – purchases	5	0	0	5	15	0	0
products	Equity/index options – sales	0	0	0	0	0	34	11
Equity/index business		**5**	**0**	**0**	**5**	**15**	**34**	**11**
OTC-	Credit default swaps – purchases	0	0	0	0	0	0	0
products	Credit default swaps – sales	0	0	0	0	0	0	0
Credit business		**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financial derivatives total		**441**	**550**	**869**	**1,860**	**1,957**	**1,931**	**2,071**

Breakdown of positive market values by counterparty

The replacement costs of OTC derivatives from Proprietary Trading are broken down by counterparty in order to analyse possible default scenarios:

		31.12.2005 € million	31.12.2005 %	31.12.2004 € million	31.12.2004 %
OECD	Central governments	0	0.0	0	0.0
	Banks	1,560	83.9	1,660	84.8
	Financial institutions	108	5.8	73	3.7
	Others	190	10.2	218	11.2
Non-OECD	Central governments	0	0.0	0	0.0
	Banks	0	0.0	4	0.2
	Financial institutions	0	0.0	0	0.0
	Others	2	0.1	2	0.1
Total		**1,860**	**100.0**	**1,957**	**100.0**

55 Market Risk

HSBC Trinkaus & Burkhardt calculates market risk using a value-at-risk approach. This calculates, on the basis of an assumed holding period of ten trading days and a confidence level of 99 %, the following value-at-risk figures:

€ million	31.12.2005	31.12.2004
Interest rate contracts	4.4	5.3
Currency business	0.3	0.7
Equity and index-linked business	4.9	3.1
Total potential market risk	**6.1**	**6.1**

Potential market risk in relation to all market risk categories is calculated according to a standardised internal model. The fact that risk-reducing correlations are taken into account means that the total potential market risk is less than the sum of the risks in each risk category.

Further information on the management of market risks can also be found in the section of this report entitled 'Risk Management' in the group management report.

56 Maturity Profile by Residual Term

Receivables, € million		Up to 3 months	> 3 months to 1 year	> 1 year	Total
Term loans and advances	31.12.2005	4,138.4	58.7	0.1	**4,197.2**
to banks	31.12.2004	2,162.2	34.7	0.3	**2,197.2**
Loans and advances	31.12.2005	1,923.2	479.4	151.4	**2,554.0**
to customers	31.12.2004	2,058.7	426.8	151.2	**2,636.7**
Total	**31.12.2005**	**6,061.6**	**538.1**	**151.5**	**6,751.2**
	31.12.2004	**4,220.9**	**461.5**	**151.5**	**4,833.9**

Liabilities, € million		Up to 3 months	> 3 months to 1 year	> 1 year	Total
Term deposits by banks	31.12.2005	917.4	24.6	58.3	**1,000.3**
	31.12.2004	473.0	15.5	44.5	**533.0**
Other term deposits by customers	31.12.2005	2,609.5	178.9	245.5	**3,033.9**
	31.12.2004	2,070.8	200.7	283.1	**2,554.6**
Securitised debt	31.12.2005	10.7	24.6	10.0	**45.3**
	31.12.2004	5.0	1.2	10.7	**16.9**
Subordinated capital	31.12.2005	10.2	0.0	297.9	**308.1**
	31.12.2004	0.0	0.0	273.2	**273.2**
Total	**31.12.2005**	**3,547.8**	**228.1**	**611.7**	**4,387.6**
	31.12.2004	**2,548.8**	**217.4**	**611.5**	**3,377.7**

57 Contingent Liabilities and Other Obligations

€ million	31.12.2005	31.12.2004
Contingent liabilities	**1,491.4**	**1,114.1**
from discounted bills of exchange	0.0	0.0
from guarantees and indemnity agreements	1,491.4	1,114.1
Other obligations	**2,706.2**	**2,432.2**
irrevocable loan commitments	2,706.2	2,432.2
Total	**4,197.6**	**3,546.3**

As before, there are no obligations in respect of unpaid share capital relating to investments. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-konsortialbank GmbH was also unchanged, at € 3.7 million. This is linked to a guarantee for the fulfilment of further contribution obligations directly enforceable on the other shareholders, who are members of the National Association of German Banks (Bundesverband deutscher Banken e. V. ~ BdB).

The obligation still exists for our joint venture company International Transaction Services GmbH to fully compensate any net loss for the year which may arise in the 2006 and 2007 financial years.

On the balance sheet date, commitments arising from leasing and rental contracts totalled € 27.2 million (2004: € 35.9 million):

€ million	31.12.2005	31.12.2004
1 year or less	16.7	17.9
of which: leasing	6.4	6.8
> 1 year to 5 years	9.7	16.9
of which: leasing	0.7	7.1
Over 5 years	0.8	1.1
of which: leasing	0.0	0.0
Total commitments from rental and leasing contracts	**27.2**	**35.9**

58 Assets Pledged as Collateral

Securities with a nominal value of € 1,052.5 million (2004: € 392.8 million) were deposited as collateral for transactions on Eurex and for securities lending transactions.

On the balance sheet date bonds with a nominal value of € 1,637.3 million (2004: € 1,272.7 million) were available to secure peak rediscounting facilities.

59 Trust Activities

IAS 30.55 stipulates that trust activities may not be shown on a bank's balance sheet. As an indication of the extent of our potential liability, the following table shows the value of off-balance-sheet trust activities:

€ million	31.12.2005	31.12.2004
Trust assets	**361.3**	**314.0**
Loans and advances to banks	5.0	0.1
Loans and advances to customers	159.3	189.1
Participations	197.0	124.8
Trust liabilities	**361.3**	**314.0**
Deposits by banks	83.9	63.3
Customer accounts	277.4	250.7

60 Participating Interests

HSBC Trinkaus & Burkhardt KGaA holds a direct or indirect stake of at least 20 % in the following mainly fully-consolidated companies:

Company	Domicile	Share of equity capital in %	Company's total equity capital € 000s	Net earnings in 2005 in € 000s
Banks and bank-like companies				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	18,646
HSBC Trinkaus & Burkhardt (International) SA	Luxemburg	100.0	91,255	10,914
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	2,051	1,476
Internationale Kapitalanlage-gesellschaft mbH	Düsseldorf	100.0	16,048	2,788
International Transaction Services GmbH[1]	Düsseldorf	51.0	16,534	1,534
HSBC Trinkaus Capital Management GmbH	Düsseldorf	100.0	2,601	13,410
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	3,231	802
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	- 122
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	108	98
HSBC Trinkaus Privatimmobilien GmbH	Düsseldorf	100.0	25	- 47
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	22	4
Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH	Düsseldorf	100.0	117	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	66	4
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	63	4
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	53	3
Trinkaus Canada 1 GP Ltd.[2]	Toronto	100.0	3	2
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	288	1,826
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,765	1,735
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	12,340	494
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,742	288
Dr. Helfer Verwaltungsgebäude Luxembourg KG	Düsseldorf	100.0	1,019	252
Other companies				
HSBC Bond Portfolio Geschäftsführungs GmbH	Frankfurt a.M.	100.0	76	15
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	3,533	2
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	3
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	24	1

[1] consolidated at equity
[2] not consolidated owing to insignificant value

HSBC Trinkaus & Burkhardt KGaA also has an indirect 17.9% holding in Sino AG, Düsseldorf, which has total equity of € 3,192,000 and net income of € 614,000 (to 30.9.2004 due to the company's unusual financial year).

61 Letter of Comfort

HSBC Trinkaus & Burkhardt KGaA undertakes to ensure that all fully consolidated companies of the Group are in a position to fulfil their contractual obligations. For a complete list of these companies, please refer to the table of participating interests held by HSBC Trinkaus & Burkhardt KGaA given in Note 60 above.

Moreover, HSBC Trinkaus & Burkhardt KGaA regularly indemnifies the current general partners (if individual legal persons) of those fully consolidated companies having the legal form of a KG (limited partnership), as well as those of the Trinkaus real estate fund companies, against all third-party claims that are made against them in their legal capacity or activities as general partners in the respective companies, provided the managing partners are natural persons.

62 Staff

Annual average	2005	2004
Staff outside Germany	128	125
Staff in Germany	1,485	1,462
Total (including trainees)	**1,613**	**1,587**
of whom:		
Women	706	688
Men	907	899

63 Auditors' fees

The following fees for the auditors of the consolidated accounts, KMPG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were reported as expense:

€ million	2005	2004
Audit of the annual accounts	0.7	0.7
tax consultancy services	0.1	0.1
Other services	0.3	0.1
Total	**1.1**	**0.9**

64 Business Relationships with Companies and Persons Defined as "Related Parties"

HSBC Trinkaus & Burkhardt KGaA has cooperation and agency agreements with various companies of the HSBC Group. The consolidated profit and loss account includes € 39.8 million of income and € 2.3 million of expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. The transactions were completed at terms in line with the market and are typically unsecured.

Emoluments of and Loans & Advances to Members of the Executive Bodies of HSBC Trinkaus & Burkhardt

The emoluments of the Managing Partners in 2005 totalled € 20,685,868.62 including a compensation payment for a retired Managing Partner. The amounts comprise contractually-agreed fixed and performance-related remuneration components. Of these, 89.0 % of the total emoluments were attributable to performance-related components. Reserves totalling € 2,938,493.00 (2004: € 2,604,504.00) have been made to cover pension commitments to the Managing Partners and their surviving dependents.

The payments made to members of the Supervisory Board and the Shareholders' Committee follow the provisions of the Articles of Association, which are the same for both bodies. They are primarily performance-related and are linked to percentage dividend rates. Of the total emoluments received by the Supervisory Board and the Shareholders' Committee, 94.1 % is performance-related. Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 30 May 2006, the emoluments of the Supervisory Board for 2005 will be € 976,140.00 and the emoluments of the Shareholders' Committee € 325,380.00. The members of the Advisory Board received emoluments totalling € 322,200.00

During 2005, fees were paid to four members of the Supervisory Board for consultancy services provided. These amounted to € 23,200.00, € 53,378.88, € 73,950.00 and € 92,800.00.

None of the Managing Partners acquired shares in HSBC Trinkaus & Burkhardt KGaA over the course of 2005. No subscription rights or other share-based remuneration were granted. The employees' representatives in the Supervisory Board basically have the right to participate in the share option programme for employees described under Note 16. Minor use was made of this right.

There were no advances and loans to members of the Managing Committee and the Supervisory Board as at 31 December 2005 (2004: € 424,789.11 and € 15,806.89, respectively). Like in the previous year, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and their surviving dependents and its legal predecessor Trinkaus & Burkhardt KG totalled € 4,535,343.94 (2004: € 4,018,450.14). Reserves totalling € 41,348,060.00 (2004: € 43,192,273.00) have been created to cover pension commitments to former Managing Partners and their surviving dependents.

65 Statement on the German Corporate Governance Code pursuant to Section 151 AktG

The Managing Partners and the Supervisory Board of the Bank have submitted their statement on the recommendations of the 'Commission of the German Corporate Governance Code' and made this permanently available to shareholders, pursuant to Article 161 of the Stock Corporation Act (AktG).

66 Mandates held by Managing Partners

The Managing Partners of HSBC Trinkaus & Burkhardt KGaA sit on the following
a) statutory supervisory boards and
b) comparable management bodies:

Andreas Schmitz	a) Börsenrat der Börse Düsseldorf, Düsseldorf b) HSBC Trinkaus Capital Management GmbH, Düsseldorf [1] L-Bank, Karlsruhe
Paul Hagen	a) Börsenrat der EUREX Deutschland, Frankfurt a. M. b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Deputy Chairman) [1] HSBC Trinkaus Investment Managers SA, Luxembourg [1] Falke-Bank AG i.L., Düsseldorf Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1] International Transaction Services GmbH, Düsseldorf (Chairman) [1] RWE Trading GmbH, Essen
Dr. Olaf Huth	a) none b) HSBC Guyerzeller Bank AG, Zürich [2] HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1] HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (Chairman) [1] HSBC Trinkaus Capital Management GmbH, Düsseldorf [1] HSBC Trinkaus Investment Managers SA, Luxembourg (Deputy Chairman) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Carola Gräfin von Schmettow	a) Börsenrat der Frankfurter Wertpapierbörse, Frankfurt a. M. DBV Winterthur Lebensversicherung, Wiesbaden b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1] HSBC Trinkaus Capital Management GmbH, Düsseldorf (Chair) [1] HSBC Trinkaus Investment Managers SA, Luxembourg (Chair) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chair) [1] Member of the Board of the following company: HSBC Asset Management (Europe) SA, Paris [2]

[1] HSBC Trinkaus & Burkhardt Group.
[2] HSBC Holdings plc Group.

67 Mandates held by Other Employees

The following Group employees sit on
a) statutory supervisory boards and
b) comparable management bodies listed below:

Dr. Rudolf Apenbrink	a) none b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Norbert Böhm	a) none b) HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf (Chairman) [1]
Jürgen Berg	a) none b) H.E.A.T Mezzanine I-2005 SA, Luxembourg (Chairman) HSBC Trinkaus Investment Managers SA, Luxembourg [1] Member of the Board of the following company: HSBC Trinkaus Investment Management Ltd., Hong Kong [1]
Bernd Franke	a) none b) Member of the Board of the following company: HSBC Securities Services SA, Luxembourg [2]
Dr. Detlef Irmen	a) none b) International Transaction Services GmbH, Düsseldorf [1]
Manfred Krause	a) none b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Jörg Meier	a) none b) H.E.A.T Mezzanine I-2005 SA, Luxembourg HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1]
Bernd Naujoks	a) none b) HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf (Deputy Chairman) [1]
Hans-Joachim Rosteck	a) none b) H.E.A.T Mezzanine I-2005 SA, Luxembourg HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1] HSBC Trinkaus Investment Managers SA, Luxembourg [1] Member of the Board of the following company: HSBC Trinkaus Investment Management Ltd., Hong Kong [1]
Ulrich W. Schwittay	a) none b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1]

[1] HSBC Trinkaus & Burkhardt Group.
[2] HSBC Holdings plc Group.

68 Other Mandates held by Supervisory Board Members

The members of our Supervisory Board also sit on

a) the statutory supervisory boards and

b) the comparable management bodies listed below:

Dr. Sieghardt Rometsch	a) APCOA Parking AG, Stuttgart (Deputy Chairman) Lanxess AG, Leverkusen b) Düsseldorfer Universitätsklinikum, Düsseldorf HSBC Bank Polska SA, Warsaw[2] Management Partner GmbH, Stuttgart Member of the Board of the following company: HSBC Private Banking Holdings (Suisse) SA, Geneva[2]
Stephen Green	a) none b) Member of the Board bei folgenden Gesellschaften: Grupo Financiero HSBC, SA de C.V., Mexico[2] HSBC Asset Management Limited, London (Chairman)[2] HSBC Bank Middle East Limited, Jersey[2] HSBC Bank plc, London (Chairman)[2] HSBC Bank USA, National Association, Delaware (Chairman)[2] HSBC France, Paris[2] HSBC Group Investment Businesses Limited, London (Chairman)[2] HSBC Holdings plc, London[2] HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC, Mexico[2] HSBC North America Inc., New York (Deputy Chairman)[2] HSBC Private Banking Holdings (Suisse) SA, Geneva[2] HSBC USA Inc., Baltimore (Chairman)[2] The Bank of Bermuda Limited, Hamilton The Hong Kong & Shanghai Banking Corporation Limited, Hong Kong SAR[2]
Dr. h.c. Ludwig Georg Braun	a) Stihl AG, Waiblingen b) Aesculap AG & Co. KG, Tuttlingen B. Braun Austria Ges.m.b.H., Vienna[3] B. Braun Holding AG, Emmenbrücken[3] B. Braun Medical SA, Barcelona[3] B. Braun Medical S.A.S., Boulogne-Billancourt[3] B. Braun Milano S.p.A., Milan[3] IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman) Landesbank Hessen-Thüringen Girozentrale, Frankfurt a.M./Erfurt Universitätsklinikum Gießen und Marburg, Gießen Wilh. Werhahn, Neuss Member of the Board of the following company: B. Braun of America Inc., Bethlehem[3]

Charles-Henri Filippi	a) none b) Board member of the following companies: Altadis SA, Madrid HSBC Asset Management Holdings (France), Paris [2] HSBC Bank plc, London [2] HSBC France, Paris (Chairman) [2] HSBC Holdings plc, London [2] HSBC Private Bank France, Paris [2]
Wolfgang Haupt	a) Pfleiderer AG, Neumarkt Trinkaus Private Equity Pool I GmbH & Co KGaA, Düsseldorf (Chairman) Trinkaus Private Equity M 3 GmbH & Co KGaA, Düsseldorf (Chairman) Trinkaus Secondary GmbH & Co. KGaA, Düsseldorf (Chairman) b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Chairman) [1]
Harold Hörauf	a) Börse Düsseldorf AG, Düsseldorf (Chairman) Börsenrat der Börse Düsseldorf, Düsseldorf b) BVV Versorgungskasse des Bankgewerbes e.V., Berlin BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Dr. Otto Graf Lambsdorff	a) D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG, Munich Deutsche Lufthansa AG, Frankfurt a. M./Cologne Iveco Magirus AG, Ulm (Chairman) b) none
Professor Dr. Ulrich Lehner	a) E.ON AG, Düsseldorf b) Novartis AG, Basel Board member of the following companies: Ecolab Inc., St. Paul The DIAL Company, Scottsdale (Chairman)
Dr. Christoph Niemann	a) Baader Wertpapierhandelsbank AG, Munich b) none
Dietmar Sauer	a) Hochtief Construction AG, Essen Karlsruher Lebensversicherung AG, Karlsruhe M+W Zander AG, Stuttgart Wieland-Werke AG, Ulm Wüstenrot & Württembergische AG, Stuttgart Wüstenrot Holding AG, Ludwigsburg ZF Friedrichshafen AG, Friedrichshafen b) none

[1] HSBC Trinkaus & Burkhardt Group.
[2] HSBC Holdings plc Group.
[3] B. Braun-Group.

Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement, the statements of changes in capital position and cash flows, the notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt KGaA for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB, is the responsibility of the Managing Partners. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be recognized with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section § 315a para. HGB and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 23 February 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Kügler
German Public Auditor	German Public Auditor

ANNEX D

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2007

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2007 is reproduced on the following pages and separately paginated (17 pages, from page D-2 through page D-18).

Interim Report
as of 31 March 2006

(The interim report of the Issuer has neither been audited nor reviewed by the auditor.)

HSBC Trinkaus & Burkhardt

Bank since 1785

Key Figures
HSBC Trinkaus & Burkhardt Group

	Q1 2007	Q1 2006	Change In %
Profit and Loss Account in € m			
Operating income	149.7	127.0	17.9
Risk provisions	0.4	- 0.1	-
Total administrative expenses	88.6	74.7	18.6
Operating profit	61.5	52.2	17.8
Profit before tax	66.7	55.3	20.6
Income Tax	25.2	23.2	8.6
Net income	41.5	32.1	29.3
Key Figures			
Cost-income ratio from ordinary activities (%)	57.2	57.5	-
Return on equity before taxes (%) (projected for the year)	37.9	34.1	-
Portion of net fees and commissions in operating income (%)	59.6	57.4	-
Staff as of reporting date	1,673	1,542	8.5
Share information			
Average number of shares in circulation (million)	26.1	26.1	0.0
Earnings per share (€)	1.59	1.23	29.3
Stock exchange price of share as of reporting date (€)	110.0	94.1	16.9
Market capitalization as of reporting date (€)	2,871	2,456	16.9

	31 Mar 2007	31 Dec 2006	Change In %
Balance sheet figures (in € m)			
Balance sheet total	19,440.5	18,676.4	4.1
Balance sheet equity	929.1	884.9	5.0
Key Figures under Banking Supervisory Law in accordance with BIZ*			
Core capital (in € m)	587	585	0.3
Equity funds (in € m)	1,009	1,041	- 3.1
Mandatory risk items (in € m)	8,692	8,321	4.5
Core capital ratio (%)	7.6	7.8	-
Equity capital ratio in %	11.6	12.5	-

*These key figures were determined on the basis of internal calculations; they are published voluntarily without notification to the supervisory authorities.

Profit and Loss Account
as of 31 March 2007

in € m	Notes	Q1 2007	Q1 2006	Change In %
Interest income		86.9	58.6	48.3
Interest payable		66.4	43.2	53.7
Net interest income	(1)	20.5	15.4	33.1
Risk provisions in Credit Business	(2)	0.4	- 0.1	-
Net income from shares in companies evaluated at equity.		1.4	1.4	0.0
Fee income		168.6	131.6	28.1
Fee expense		79.4	58.7	35.3
Net fees and commissions	(3)	89.2	72.9	22.4
Trading profit	(4)	37.5	36.7	2.2
Total administrative expenses	(5)	88.6	74.7	18.6
Net income from investment securities		5.2	3.7	40.5
Other Income	(6)	1.1	0.0	> 100.0
Net income before tax		**66.7**	**55.3**	**20.6**
Income Tax		25.2	23,2	8.6
Net income		**41.5**	**32.1**	**29.3**

Earnings per Share

in €	Q1 2007	Q1 2006	Change In %
Earnings per Share	1.59	1.23	29.3
Basic earnings per Share	1.59	1.23	29.3

As in the previous year, there were no option and conversion rights outstanding for the receipt of shares in Q1 2007. There was therefore no calculable dilution effect.

Consolidated Balance Sheet as of 31 March 2007

Assets in € m	Notes	31 Mar 2007	31 Dec 2006	Change In %
Cash reserves		231.2	436.3	- 47.0
Loans and advances to banks	(8)	6,369.2	5,531.3	15.1
Loans and advances to customers	(9)	3,909.1	3,245.4	20.5
Risk provisions, loans and advances	(10)	- 15.5	- 17.0	- 8.8
Financial assets held for trading	(11)	7,298.5	7,880.5	- 7.4
Financial assets	(12)	1,429.6	1,437.6	- 0.6
Shares in companies evaluated at equity.		11.5	1,5	> 100.0
Property and equipment		79.4	80.4	- 1.2
Intangible assets		8.8	9.3	- 5.4
Income tax claims		25.9	2.5	> 100.0
Current		25.9	2.5	> 100.0
Deferred		0.0	0.0	0.0
Other assets		92.8	68.6	35.3
Total assets		**19,440.5**	**18,676.4**	**4.1**

Liabilities in € m	Notes	31 Mar 2007	31 Dec 2006	Change In %
Deposits by banks	(13)	2,441.7	1,702.5	43.4
Liabilities to customers	(14)	9,177.6	8,861.4	3.6
Securities debt		30.0	29.8	0.7
Financial liabilities held for trading	(15)	6,095.0	6,476.8	- 5.9
Provisions		68.2	113.0	- 39.6
Income tax obligations		99.8	62.0	61.0
Current		0.0	25.7	- 100.0
Deferred		99.8	36.3	> 100.0
Other liabilities		163.4	105.4	55.0
Subordinated capital		435.7	440.6	- 1.1
Equity		929.1	884.9	5.0
Subscribed capital		70.0	70.0	0.0
Capital reserve		211.7	211.4	0.1
Retained earnings		495.6	481.8	2.9
Consolidated balance sheet profit 2006		-	121.7	-
Profit 1 Jan – 31 Mar 2007				
Including retained earnings		151.8	-	-
Total liabilities		**19,440.5**	**18,676.4**	**4.1**

Breakdown of the Group's Equity and Subordinated Capital

in € m	31 Mar 2007	31 Dec 2006
Subscribed capital	70.0	70.0
Capital reserve	211.7	211.4
Retained earnings	495.6	481.8
of which: valuation reserve for financial instruments	91.1	88.6
of which: Valuation reserve for actuarial profit and loss account	- 23.2	- 23.1
Profit including retained earnings	151.8	121.7
Group equity capital	**929.1**	**884.9**
Subordinated liabilities	299.9	304.8
Participatory capital	135.8	135.8
Group subordinated capital	**435.7**	**440.6**
Total	**1,364.8**	**1,325.5**

Consolidated Statement of Changes in Equity

in € m	2007	2006
Group equity as of 1 Jan	**884.9**	**834.6**
Distribution	0.0	0.0
Profit	41.5	32.1
Profit/loss not recorded in the profit and loss account (change in valuation reserves)	2.4	- 2.1
Foreign currency translation differences/other effects	0.3	- 0.1
Group equity as of 31.3.	**929.1**	**864.5**

Comprehensive Profit for the Period

in € m	Q1 2007	Q1 2006
Net income	41.5	32.1
Profit/loss not recorded in the profit and loss account	2.4	- 2.1
of which from financial instruments	2.5	- 2.6
of which from actuarial results	- 0.1	0.5
Total	**43.9**	**30.0**

Consolidated Cash Flow Statement

in € m	2007	2006
Cash and cash equivalents as of 1 Jan	**436.3**	**798.6**
Cash flow from operating activities	- 198.8	- 406.5
Cash flow from investment activities	- 1.4	- 0.4
Cash flow from financing activities	- 4.9	- 10.1
Cash and cash equivalents as of 31.3	**231.2**	**381.6**

The cash flow statement calculated in accordance with the indirect method shows the development and status of the cash and cash equivalents of the HSBC Trinkaus & Burkhardt Group. The reported cash and cash equivalents correspond to the balance sheet item cash reserves, which is composed of cash and cash equivalents and balances with central banks.

Notes on the Profit and Loss Account and on the Consolidated Balance Sheet

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf as of 31 March 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). In particular, the requirements given in IAS 34 for a quarterly report are fulfilled.
We applied the same accounting and valuation methods as in the consolidated financial statements for 2006 in the preparation of this quarterly report including the comparative figures for the same period of the previous year, taking into account new IFRS standards that have come into effect and appropriate interpretations.

We are currently waiving the right to apply standards early: IFRS 7, Financial Instruments: Disclosures comprehensively revises reporting for financial instruments. No material changes in the balance sheet and in the profit and loss account are to be expected from a corresponding change in the reporting of financial instruments. We have also dispensed with the early application of the changes to IAS 1 resulting from IFRS 7 for the presentation of capital management targets and methods.

No significant changes are expected to result from the segment reporting, which is obligatory under IFRS 8 as of 1 January 2009 in accordance with the management approach.

IFRIC 11, Group and Treasury Share Transaction regulates how share option programmes that are granted to the employees of a subsidiary by the parent company are to be reported in the subsidiary company. We do not expect this application to have any effect.

All other changes to standards, the early application of which we have dispensed with are of no or only minor significance for our consolidated financial statements.

(1) Net interest income

in m	Q1 2007	Q1 2006
Interest income	**86.9**	**58.6**
Loans and advances to banks	40.9	25.1
Money market business	37.4	22.1
Other interest-bearing loans and advances	3.5	3.0
Loans and advances to customers	34.0	21.8
Money market business	10.9	9.2
Other interest-bearing loans and advances	23.1	12.6
Income from financial investments	12.0	11.7
Interest income	11.6	11.6
Dividend income	0.0	0.0
Income from financial investments	0.4	0.1
Interest payable on	**66.4**	**43.2**
Securities Debt banks	6.2	3.4
Money market business	4.8	2.3
Other interest-bearing deposits	1.4	1.1
from liabilities to customers	54.4	35.5
Money market business	32.4	22.5
Other interest-bearing deposits	22.0	13.0
from Securities Debt	0.2	0.5
from subordinated Capital	5.6	3.8
Net interest income	**20.5**	**15.4**

(2) Risk provisions in credit business

in € m	Q1 2007	Q1 2006
Additions	0.5	0.1
Applications	0.9	0.0
Direct write-offs and amortizations	0.0	0.0
Recoveries of loans and advances	0.0	0.0
Total	**- 0.4**	**0.1**

(3) Net fees and commissions

in € m	Q1 2007	Q1 2006
Securities business	56.9	48.0
Foreign exchange and derivatives	14.8	14.8
Issue and structuring of securities business	6.4	0.6
International Services Business	3.3	3.6
Corporate Finance	2.6	0.3
Payments and Cash Management	1.4	1.2
Credit Business	1.0	0.9
Property business	0.0	1.1
Other fee and commission- earning business	2.8	2.4
Total	**89.2**	**72.9**

(4) Trading profit

in € m	Q1 2007	Q1 2006
Equities Equity/index options	27.4	29.1
Bonds and interest rate derivatives	6.7	6.3
Foreign exchange	3.4	1.3
Total	**37.5**	**36.7**

The interest and dividend result to be assigned to trading activities, which is composed of the total of the interest and dividend income minus the corresponding refinancing expenses is part of the trading result.

(5) Total administrative expenses

in € m	Q1 2007	Q1 2006
Staff costs	57.9	49.1
Wages and salaries	51.3	43.6
Social security contributions and	4.2	3.9
other expenses for		
retirement benefits	2.4	1.6
Other administrative expenses	27.4	22.8
Depreciation of property and equipment and amortisation of intangible assets	3.3	2.8
Total	**88.6**	**74.7**

(6) Other income

in € m	Q1 2007	Q1 2006
Other operating income	1.3	0.9
Other operating expenses	0.2	0.3
Other operating income	**1.1**	**0.6**
Remaining income	0.0	0.0
Remaining expenses	0.0	0.6
Other income/expenses	**0.0**	**- 0.6**
Other Income	**1.1**	**0.0**

(7) Segment reporting

in € m	Private Banking	Corporate Banking	Institutional Clients	Proprietary Trading	Central Divisions/ Consolidation	Total
Net interest income						
Q1 2007	3.1	9.1	0.5	3.0	4.8	20.5
Q1 2006	2.5	6.5	0.5	0.6	5.3	15.4
Risk provisions						
Q1 2007	- 0.4	- 1.9	- 0.1	0.0	2.8	0.4
Q1 2006	- 0.4	- 1.8	- 0.1	0.0	2.2	- 0.1
Net income from shares in companies evaluated at equity.						
Q1 2007					1.4	1.4
Q1 2006					1.4	1.4
Net fees and commissions						
Q1 2007	23.6	21.4	38.2	5.3	0.7	89.2
Q1 2006	20.5	20.0	31.1	0.4	0.9	72.9
Trading profit						
Q1 2007			0.9	33.6	3.0	37.5
Q1 2006			2.9	29.7	4.1	36.7
Total administrative expenses						
Q1 2007	15.1	17.4	21.2	15.3	19.6	88.6
Q1 2006	13.3	14.7	17.2	11.1	18.4	74.7
Net other operating expenses and income						
Q1 2007					1.1	1.1
Q1 2006					0.6	0.6
Operating profit						
Q1 2007	11.2	11.2	18.3	26.6	- 5.8	61.5
Q1 2006	9.3	10.0	17.2	19.6	- 3.9	52.2
Result from financial assets						
Q1 2007					5.2	5.2
Q1 2006					3.7	3.7
Other income/expenses						
Q1 2007					0.0	0.0
Q1 2006					- 0.6	- 0.6
Net income before tax						
Q1 2007	11.2	11.2	18.3	26.6	- 0.6	66.7
Q1 2006	9.3	10.0	17.2	19.6	- 0.8	55.3

Despite the temporary problems in the market environment at the end of February and beginning of March, all of the Bank's business divisions managed to expand their contribution to earnings in comparison to the previous year. The highest contribution to income of all customer divisions was achieved by the Institutional Clients division as a result of very successful business in fixed income and asset management products.

While the segment Private Banking was able to exceed its result from the previous year as a result of a positive increase in volume and the resulting securities business, the Corporate Banking division benefited particularly from high income from strong growth in deposit, M&A and IPO business. Trading was able to improve its results in comparison with the previous year in particular as a result of high extra income from structured interest products and money and currency trading.

Higher provisions for profit-related payments because of improved results and additional costs as a result of a strong increase in the number of employees as a necessary basis for our expanding business are the major causes of the clear increase in administrative expense for the Bank as a whole in comparison with the previous year.

(8) Loans and advances to banks

in € m	31 Mar 2007	31 Dec 2006
Current accounts	918.0	521.8
Money market business	3,407.3	3,665.3
of which overnight money	0.0	0.0
of which term money	3,407.3	3,665.3
Reverse repos	1,790.3	1,091.2
Other loans and advance	253.6	253.0
Total	**6,369.2**	**5,531.3**
of which German banks	2,624.0	2,003.1
of which foreign banks	3,745.2	3,528.2

(9) Loans and advances to customers

in € m	31 Mar 2007	31 Dec 2006
Current accounts	1,463.2	1,092.8
Money market	1,112.1	943.5
of which overnight money	338.9	237.5
of which term money	773.2	706.0
Loans	1,248.9	1,122.0
Reverse repos	72.3	72.3
Other loans and advance	12.6	14.8
Total	**3,909.1**	**3,245.4**
of which German banks	2,963.7	2,456.8
of which foreign banks	945.4	788.6

(10) Risk provisions

in € m	31 Mar 2007	31 Dec 2006
Risk provisions for receivables	15.5	17.0
Provisions for pensions from credit business	11.8	10.9
Risk provisions in credit business	**27.3**	**27.9**

	Write-downs/ provisions on an				Total	
	individual basis		portfolio basis			
in € m	2007	2006	2007	2006	2007	2006
Status as at 1.1	**21.7**	**32.9**	**6.2**	**6.5**	**27.9**	**39.4**
Dissolutions	0.2	0.0	0.7	0.0	0,9	0.0
Usage	0.2	0.1	0.0	0.0	0.2	0.1
Additions	0.5	0.1	0.0	0.0	0.5	0.1
Currency differences	0.0	0.0	0.0	0.0	0.0	0.0
Status as at 31.3	**21.8**	**32.9**	**5.5**	**6.5**	**27.3**	**39.4**

(11) Financial assets held for trading

in € m	31 Mar 2007	31 Dec 2006
Bonds and other fixed income securities	3,999.0	3,978.9
Equity and other non-fixed-income securities	692.0	859.0
Marketable assets	752.3	1,136.8
Positive market value of derivatives	1,855.2	1,905.8
Total	**7,298.5**	**7,880.5**

(12) Financial assets

in € m	31 Mar 2007	31 Dec 2006
Bonds and other fixed income securities and interest rate derivatives	885.0	929.6
Equities	79.5	49.2
Investment certificates	225.8	221.7
Promissory note loans	159.3	163.1
Participations	80.0	74.0
Total	**1,429.6**	**1,437.6**

(13) Liabilities to banks

in € m	31 Mar 2007	31 Dec 2006
Current accounts	889.2	549.5
Money market business	504.3	765.6
of which overnight money	89.7	136.5
of which term money	414.6	629.1
Repos/securities loans	859.5	206.8
Other liabilities	188.7	180.6
Total	**2,441.7**	**1,702.5**
of which German banks	691.7	634.4
of which foreign banks	1,750.0	1,068.1

(14) Liabilities to customers

in € m	31 Mar 2007	31 Dec 2006
Current accounts	4,324.1	3,905.2
Money market business	4,396.8	4,527.6
of which overnight money	878.2	1,238.5
of which term money	3,518.6	3,289.1
Savings deposits	13.1	13.6
Other liabilities	443.6	415.0
Total	**9,177.6**	**8,861.4**
of which German banks	6,753.5	6,407.7
of which foreign banks	2,424.1	2,453.7

(15) Financial liabilities held for trading

in € m	31 Mar 2007	31 Dec 2006
Negative market value of derivatives	1,499.1	1,664.3
Discount certificates, promissory note loans bonds and warrants in issue	4,352.0	4,692.1
Delivery commitments arising from short sales of securities	243.9	120.4
Total	**6,095.0**	**6,476.8**

Other Notes

(16) Derivatives Business

in € m	Nominal amounts by residual maturity				Item Market values
	Up to 1 year	1-5 years	Over 5 years	Total	
Interest rate transactions	6,541	21,185	25,575	53,301	746
Currency transactions	29,129	1,165	192	30,486	361
Equity/index transactions	4,822	4,574	1,237	10,633	83
Credit derivatives	10	20	0	30	0
Total 31 Mar 2007	**40,502**	**26,944**	**27,004**	**94,450**	**1,190**
Total 31 Dec 2006	**40,093**	**26,137**	**30,382**	**96,612**	**1,326**

In the calculation of the nominal amounts, both transactions with positive market values and transactions with negative market values are taken into account. The stated positive market values of deals represent the replacement values for the trading activities that may arise in the event of a default of all OTC counterparties, regardless of their individual credit rating. The values consist of ongoing interest, foreign currency and equity/index related transactions, as well as credit derivatives that include a fulfilment risk, as well as appropriate market price risks. Netting agreements are not taken into account. Listed products and grantor items are not listed because they do not include a counterparty risk. There are still no significant concentrations in the derivatives business.

(17) Market risk

in € m	31 Mar 2007	31 Dec 2006
Interest rate contracts	7.3	5.2
Currency business	0.1	0.3
Equity and index-linked business	5.2	4.7
Total market risk	**8.4**	**7.6**

The calculation of the market risk potential is performed for all market risk categories with a standard internal model. The total market risk potential is lower than the total risks per risk category taking into consideration correlations.

(18) Contingent Liabilities and Other Obligations

in € m	31 Mar 2007	31 Dec 2006
Contingent liabilities		
from guarantees and indemnity agreements	1,624.5	1,581.2
Irrevocable loan commitments	3,812.8	3,701.1
Total	**5,437.3**	**5,282.3**

NAMES AND ADDRESSES

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