REGISTRATION DOCUMENT

4 August 2008

HSBC Trinkaus

This document (this "**Registration Document**") has been prepared for the purposes of providing the information disclosure on HSBC Trinkaus & Burkhardt AG, Düsseldorf, Federal Republic of Germany (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, "WpPG"*) 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.

TABLE OF CONTENTS

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, "WpPG"*) 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 any supplement to any prospectus in which this Registration Document is incorporated by reference will be available free of charge during the life of this Registration Document, during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays), for inspection at the office of HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf, Federal Republic of Germany and may also be inspected and obtained on HSBC Trinkaus & Burkhardt AG 's website www.hsbc-zertifikate.de.

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.

.

Statutory Auditors

Name and Address

The Issuer's auditor is KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Am Bonneshof 35, 40474 Düsseldorf, Federal Republic of Germany, 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.

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, Federal Republic of Germany, 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. 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. INKA Internationale Kapitalanlagegesellschaft mbH 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

For the purpose of the description of the principal activities of the Issuer new products and activities are not to be mentioned.

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

A statement on the competitive position of the Issuer with respect to its competitive position will not be given.

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 2007.

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:

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

Mandates in supervisory boards: Lanxess AG, Leverkusen

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

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

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

Deniz **Erkman***, Krefeld
Bank Employee

Dr. Hans Michael **Gaul**, Düsseldorf
former member of the Management Board
E.ON AG

Mandates in supervisory boards:	DKV Deutsche Krankenversicherung AG, Cologne Evonik Industries AG, Essen IVG Immobilien AG, Bonn Siemens AG VNG – Verbundnetz Gas AG, Leipzig Volkswagen AG, Wolfsburg

* Representatives of the employees

Friedrich Karl **Goßmann***, Essen
Bank Employee

Stuart **Gulliver**, London
Chief Executive Corporate,
Investment Banking and Markets,
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)
Mandates in supervisory boards and comparable control bodies:	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (chairman)

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

* 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) HSBC US Buy-Out GmbH & Co. KgaA, Düsseldorf (chairman) Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA (chairman)
Mandates in supervisory boards and comparable control bodies:	BVV Versicherungsverein des Bankgewerbes a.G., Berlin BVV Versorgungskasse des Bankgewerbes e.V., Berlin BVV Pensionsfonds, Berlin

Oliver **Honée***, Essen
Bank Employee

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

Mandates in supervisory boards:	LRP Landesbank Rheinland-Pfalz, Mainz (chairman) LBBW Immobilien GmbH, Stuttgart (chairman) Heidelberger Druckmaschinen AG, Heidelberg KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main
Mandates in comparable control bodies:	DeKaBank Deutsche Girozentrale, Frankfurt am Main Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart

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 Dr. Ing. h.c. F. Porsche AG, Stuttgart Dr. Ing. h.c. F. Porsche S.E., Stuttgart

---

* Representatives of the employees

A09613365

Mandates in comparable control bodies:	Novartis AG, Basel, Switzerland

Jörn **Wölken***, Lohmar
Bank Employee

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

Paul **Hagen**
Banker, Düsseldorf

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

Dr. Olaf **Huth**
Banker, Wermelskirchen

Mandates in control bodies which are comparable to the supervisory boards:	HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (vice-chairman) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg (chairman) HSBC Investments Deutschland GmbH,

	Düsseldorf HSBC Trinkaus Investment Managers SA, Luxembourg (vice-chairman) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Carola Gräfin **von Schmettow** Banker, Düsseldorf	
Mandates in supervisory bodies:	DBV Winterthur Lebensversicherung, Wiesbaden
Mandates in comparable control bodies:	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg HSBC Investments Deutschland GmbH, Düsseldorf (chairwoman) HSBC Trinkaus Investment Managers SA, Luxembourg Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (chairwoman) Member of the Board: 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 listed on the regulated market of 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 2007 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2007 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2006 (consolidated financial statements pursuant to IFRS) in which the historical financial information for the fiscal years 2006 and 2007 of the Issuer are stated.

Annual Financial Statements

In this regard, see Annex A annual financial statements and management report 2007 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as Annex B fiscal year 2007 (consolidated financial statements pursuant to IFRS) and Annex C fiscal year 2006 (consolidated financial statements pursuant to IFRS) 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 2007 (individual financial statements pursuant to the German Commercial Code (*Handelsgesetzbuch*)) as well as the consolidated financial statements for the years 2007 and 2006 were certified by the auditor without any qualifications.

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

Further information contained in this Registration Document have not been reviewed by the auditors.

Other financial data

Finance information, which are not extracted from the audited annual report is not contained in this Registration Document.

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 2008. 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 2008 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

No declarations or reports by experts are contained in this Registration Document.

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 2007 containing the financial figures for the year ended 31 December 2007 and the comparable figures for the year ended 31 December 2006 (with respect to the 2007 figures) and from the unaudited interim report of the Issuer as of 31 March 2008. The consolidated financial statements of the Issuer as of 31 December 2007 have been prepared in accordance with IFRS.

Extract from the audited consolidated balance sheet of the Issuer as of 31 December 2007:

Assets in € million	**31.12.2007**	**31.12.2006**	**Change**	
			in € million	**in %**
Cash reserve	332.3	436.3	- 104.0	- 23.8
Loans and advances to banks	4,117.0	4,440.1	- 323.1	- 7.3
Loans and advances to customers	4,272.9	3,173.1	1,099.8	34.7
Net loan impairment provisions	- 16.2	- 17.0	0.8	4.7
Trading assets	10,436.8	9,044.0	1,392.8	15.4
Financial assets	1,568.2	1,437.6	130.6	9.1
Interests in associates	15.2	1.5	13.7	> 100.0
Property, plant and equipment	196.3	80.4	115.9	> 100.0
Intangible assets	12.3	9.3	3.0	32.3
Income tax assets	54.8	2.5	52.3	> 100.0
current	54.8	2.5	52.3	>100.0
deferred	0.0	0.0	0.0	0.0
Other assets	77.3	68.6	8.7	12.7
Total assets	**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Liabilities in € million	**31.12.2007**	**31.12.2006**	**Change**	
			in € million	**in %**
Deposits by banks	2,532.7	1,495.7	1,037.0	69.3
Customer accounts	10,283.2	8,861.4	1,421.8	16.0
Certificated liabilities	10.0	29.8	- 19.8	- 66.4
Trading liabilities	6,488.4	6,683.6	- 195.2	- 2.9
Provisions	112.4	113.0	- 0.6	- 0.5
Income tax liabilities	106.2	62.0	44.2	71.3
current	48.4	25.7	22.7	88.3
deferred	57.8	36.3	21.5	59.2
Other liabilities	110.2	105.4	4.8	4.6
Subordinated capital	458.7	440.6	18.1	4.1

Liabilities in € million	31.12.2007	31.12.2006	Change	
			in € million	in %
Shareholders' equity	965.1	884.9	80.2	9.1
Share capital	70.0	70.0	0.0	0.0
Capital reserve	212.9	211.4	1.5	0.7
Retained earnings	486.7	481.8	4.0	0.8
Consolidated profit available for distribution	195.5	121.7	73.8	60.6
Total equity and liabilities	**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Extract from the unaudited interim report of the Issuer as of 31 March 2008:

Assets in € million	31.3.2008	31.12.2007	Change in %
Cash reserve	278.9	332.3	- 16.1
Loans and advances to banks	3,789.1	4,117.0	- 0.8
Loans and advances to customers	4,458.9	4,272.9	4.4
Net loan impairment provision	- 17.4	- 16.2	7.4
Trading assets	10,533.9	10,436.8	0.9
Financial assets	1,531.0	1,568.2	- 2.4
Interests in associates	9.7	15.2	- 36.2
Property, plant and equipment	195.7	196.3	- 0.3
Intangible assets	50.5	12.3	> 100.0
Current taxation recoverable	55.0	54.8	0.4
Other assets	125.0	77.3	61.7
Total assets	**21,010.3**	**21,066.9**	**- 0.3**

Liabilities in € million	31.3.2008	31.12.2007	Change in %
Deposits by banks	2,160.4	2,532.7	- 14.7
Customer accounts	9,979.0	10,283.2	- 3.0
Certificated liabilities	10.0	10.0	0.0
Trading liabilities	7,088.7	6,488.4	9.3
Provisions	121.8	112.4	8.4
Taxation	109.8	106.0	3.6
current	7.9	48.2	- 83.6
deferred	101.9	57.8	76.3
Other liabilities	121.5	106.8	13.8
Subordinated capital	458.7	458.7	0.0
Shareholders' equity	960.4	968.7	- 0.9
Share capital	70.0	70.0	0.0

Capital reserve	215.5	216.9	- 0.6
Retained earnings	456.8	486.7	- 6.2
Consolidated profit available for distribution in 2007	–	195.1	–
Profit 1.1.–31.3.2008 incl. profit brought forward	218.1	–	–
Total equity and liabilities	**21,010.3**	**21,066.9**	**- 0.3**

DOCUMENTS ON DISPLAY

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

(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;

(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 2007 according to IFRS, individual financial statements 2007 according to the German Commercial Code (*Handelsgesetzbuch*), consolidated financial statements 2006 according to IFRS), as well as the interim report as of 31 March 2008 which was not subject to an audit and was also not reviewed by an auditor; and

(d) current financial reports as well as current interims reports and semi-annual reports of the Issuer.

During the validity of this Registration Document, copies of the Registration Document may be inspected and obtained during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, D-40212 Düsseldorf, Federal Republic of Germany and copies of the Registration Document may also be inspected and obtained on HSBC Trinkaus & Burkhardt AG 's website www.hsbc-zertifikate.de and copies of the Articles of Association and the historical financial information may also be insprected and obtained on HSBC Trinkaus & Burkhardt AG 's website www.hsbctrinkaus.de.

[†] 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 2007 (individual financial statements)

The Annual Financial Statements and Management Report 2007 (individual financial statements) are reproduced on the following pages and separately paginated (63 pages, from page A-2 through page A-64).

Annual Financial Statements and Management Report 2007
HSBC Trinkaus & Burkhardt AG

Date of issue: April 2008

HSBC Trinkaus & Burkhardt AG Königsallee 21/23 40212 Düsseldorf Germany Phone +49 (0) 211 9100
Fax +49 (0)211 910 616
info@hsbctrinkaus.de www.hsbctrinkaus.de

Management Report

Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 16 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) SA Luxembourg	HSBC Trinkaus Real Estate 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 Beteiligungen und Finanzierungen mbH Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxembourg 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	DPT Deutscher Pension Trust GmbH Düsseldorf	

* consolidated at equity
** renamed, previously HSBC Trinkaus & Burkhardt Immobilien GmbH

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Eight 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.

In accordance with Section 312 of the German Stock Corporation Act (AktG) the Management Board drafted a report on relations with affiliated companies for the 2007 financial year.

This report concludes with the following final statement: “The Bank received adequate consideration for every legal transaction that was listed in the report on relations with affiliated companies. This assessment is based on the circumstances that were known to us at the time the reportable cases occurred. No measures were taken or failed to be taken to the disadvantage of the Bank, neither at the instigation nor in the interests of HSBC Holdings plc or a company affiliated with HSBC Holdings plc.”

Constitution of the Company

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

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

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

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in Section 119 German Stock Corporation Act (AktG). Information on the Management Board's current authorisation to issue shares can be found in the Notes.

In accordance with the resolution passed by the Annual General Meeting on 5 June 2007, the Management Board has the right to buy and sell its own shares for the purpose of securities trading at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10%. The number of shares bought for this purpose may not exceed 5% of the company's share capital at the end of each day. This authorisation is valid until 30 November 2008.

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

Basic Features of the Compensation System for the Executive Bodies

The Supervisory Board has delegated its responsibility for determining the compensation of the Management Board to the personnel committee of the Supervisory Board. The members of the personnel committee of the Supervisory Board in the 2007 financial year were Dr Sieghard Rometsch (Chairman), Stephen Green (up to 5 June 2007), Harold Hörauf (since 12 September 2007) and Stuart Gulliver. The personnel committee met four times in the 2007 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and performance-related components as well as individually guaranteed pension payments. The fixed amounts are paid in 12 equal monthly instalments and examined annually by the personnel committee. There is no obligation to adjust the fixed compensation. The performance-related components are defined by the personnel committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as a combination of both. The cash component amounts to at least 50% of the variable compensation. The share-based compensation will be paid out in three equal instalments over the next three financial years, in each case after the announcement of the net profit for the year of the HSBC Group. The payout is subject to continued service for 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 extent and composition of the payments made to the members of the Management Board during the 2007 financial year can be found in the Notes.

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

The compensation of members of the Supervisory Board in the 2007 financial year is reported in the Notes.

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 supported by Mr Florian Fautz, Mr Trevor Gander and Mr Manfred Krause as members of the Executive Committee. The assignment of responsibilities applies not only to the parent company and its branches, but also the operations of its subsidiaries.

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)
HSBC Liaison
Company Secretariat
Compliance/Money Laundering
Corporate Communications
Audit
Data Protection

Central Functions B

Paul Hagen
Member of the Management Board
Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr Olaf Huth
Member of the Management Board
Private Banking

Division II

Andreas Schmitz
Member of the Management Board
Corporate Banking
International Business
Investment Banking

Florian Fautz
Member of the Executive Committee
Investment Banking

Manfred Krause
Member of the Executive Committee
Corporate Banking
International Business

Division III

Carola Gräfin v. Schmettow
Member of the Management Board
Institutional Clients
Asset Management

Division IV

Carola Gräfin v. Schmettow
Member of the Management Board
Global Markets

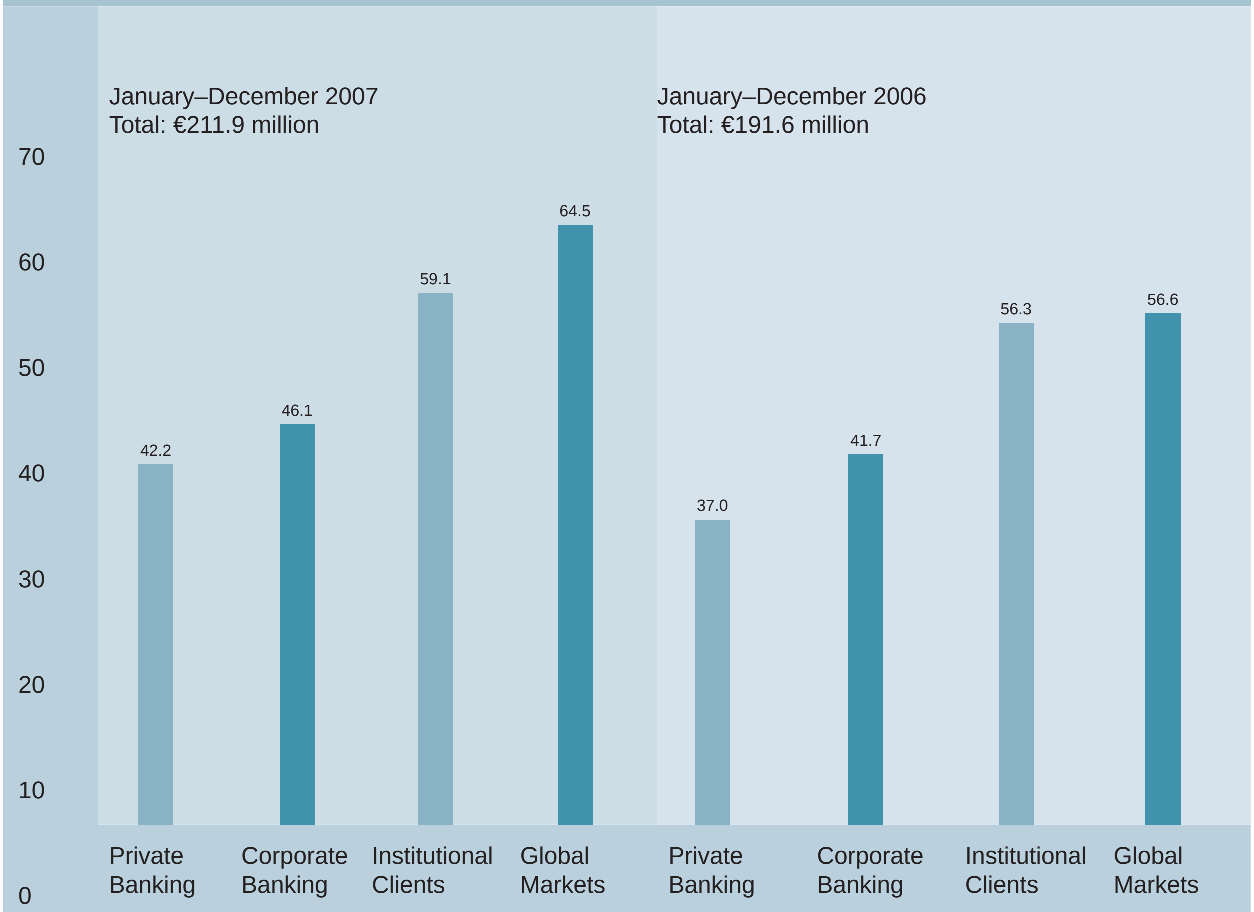
Division V

Paul Hagen
Member of the Management Board
Operations
Business Process Development
Information Technology
Credit

Trevor Gander
Member of the Executive Committee
Credit
Operational Risk

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

Contributions to profit



After deduction of the €5.9 million net costs incurred by head office functions during 2007, as against €9.1 million for 2006, the 2007 operating profit was €206.0 million (2006: €182.5 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions

Private Banking 20.80%

Corporate Banking 24.77%

Institutional Clients 28.44%

Global Markets 25.99%

Strategic Direction

The German banking sector was characterised by an increase in the earnings power of the market participants from 2004 to 2006, although increases in trading profits and a reduction in value adjustments were more responsible for this than real improvements in the operative client business. However, the signs have turned as a result of the subprime crisis, the aftermath of which has hit in particular institutions operating without a viable business model.

A possible slowdown in economic activity as a result of the American economy becoming weaker, perhaps even going into recession, could mean an increase in loan impairment provisioning requirements again. This will affect international market participants as well, though, whose business policy has been focused so far largely on structured financial solutions such as leveraged finance or structured products. These institutions will have to find their bearings again on the German market.

However, it appears to be too soon to deduce from this that we have seen the start of the long-awaited consolidation process in the German banking market. In the public sector in particular, banks are still tending to put off making structural changes and avoiding making necessary corrections by obtaining fresh government financing or additional state guarantees.

In the current situation, which may well get even worse for some of the competition, HSBC Trinkaus & Burkhardt's virtues stand out all the more: consistent strategy and personnel together with proven relationship management geared exclusively to the client.

We will continue to offer our clients 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. It is essential that we make this unique combination in the German banking landscape even more visible for both our existing and future clients in the more difficult years which lie ahead for us and for the German banking market.

We offer our clients not only the full range of traditional banking services, but also focus on sophisticated financial services as solutions to complex problems, on both the 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 high net worth private clients, corporate clients and institutional clients and we aim to become a core banking partner 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 clients and for other financial institutions. We offer highly-qualified services at competitive prices with our subsidiaries International Transaction Services GmbH (ITS) for securities settlement and Internationale Kapitalanlagegesellschaft mbH (INKA) for fund administration, each of which has significant market shares. Added to this is the Bank's Global Custody offer.
– We 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.

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

– We must systematically open up 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 and advanced training measures on the international level.
– We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

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

The 2007 Financial Year

The economic environment

The global economy expanded for the fifth year in succession in 2007, benefiting in particular from strong growth in Asia. In this environment the German economy was easily able to digest the increase in VAT at the beginning of 2007 as dampened consumer spending was cushioned by an investment and export boom. Germany went on to post solid growth of 2.6%. As a result of this strong growth, the process of recovery on the German labour market continued with the seasonally adjusted unemployment rate falling to 8.1%, the lowest level since the end of 1992. The growth Germany recorded in 2007 put it on the level of the European average and enabled it to leave the USA behind as regards economic growth. 2007 was also characterised by a strong increase in inflation: with energy and food prices rising, inflation temporarily rose to over 3% at the end of the year.

The ECB raised interest rates twice in the first half of 2007 by 25 bp in each case from 3.5% to 4.0%. While the US central bank eased monetary policy several times at the end of the year as a result of the crisis on the international capital markets, the ECB left interest rates unchanged in the second half of the year. In concerted action with the US central bank, the Bank of England and the Swiss central bank, the ECB made additional liquidity available in order to ease the pressure on the money markets.

While the broad European and US stock markets closed 2007 with meagre gains, the DAX30 was up by a good 22% and reached a new record high of 8,152 points in July. Capital market activity in the Eurozone was characterised by an increase in yields in the first half of the year, with yields on 10-year government bonds peaking at 4.7%. This trend was reversed in the second half of the year on account of the US central bank changing direction and the long-term yield fell back to 4.3% by the end of the year. In this environment the euro was able to advance across the board and notched up significant gains, in particular versus the US dollar. The single European currency rose from $1.32 at the beginning of 2007 in the direction of $1.46 at the end of the year.

Profitability

Despite a very successful business performance, profit on ordinary activities pursuant to German GAAP declined by 63.9% to €63.1 million while net profit for the year contracted by 66.1% to €37.8 million. This decline in earnings despite the successful business performance is attributable to trading transactions being accounted for pursuant to German GAAP. Accordingly, we explicitly welcome the planned changes resulting from the German Accounting Law Modernisation Act in order to give more scope to a reasonable economic analysis in the future.

We were successful in further increasing the number of our client relationships. Our results were improved once again in all business divisions. As was already the case the previous year, we gave a particularly good performance in the first half of the year. Due to the growing uncertainty among our customers in reaction to the subprime crisis, our earnings growth slowed down slightly in the second half of the year. However, we are more than satisfied with our performance in the second half of 2007 as well as with an increase in operating profit of 10.1% compared to the second half of 2006. Overall, the subprime crisis has put no notable direct burden on our Bank as we have consciously avoided investments in these products. However, we cannot rule out indirect repercussions as a result of changes in the markets and in client demand.

By clearly focusing our strategic orientation on selected client groups we continued along a profitable growth path in 2007, despite notable investments in employees and systems.

The success of the 2007 financial year is based essentially on three main factors:
- Consistent implementation of our strategy
- Moderate willingness to assume risk combined with sophisticated risk management
- Intensive cooperation with HSBC

As a result of the implementation of our strategy, 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.

Although taking on risks is one of the core functions of a bank, these risks have to be properly assessed and monitored and actively controlled. Apart from our trading activities, we enter into counterparty risk only in connection with our own client business. We pay strict attention to the profitability of each client relationship and have always refrained from taking on synthetic credit risks.

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. This partnership-based cooperation extends to very many fields of business with differing intensity, in each case corresponding to our clients’ needs.

The individual items of the income statement developed as follows:

Net interest income was up 37.9% to €158.9 million. This favourable trend is based essentially on our success in the client business. By acquiring new clients as well as intensifying existing client relationships, we were able to significantly increase average volumes on both the lending and deposits side. Thanks to our extremely good liquidity situation we expanded the interest margin in the deposit business, leading to a significant increase in net interest income in this segment. However, there was only a slight improvement in earnings in the lending business as the stiff competition for our target clients led to slightly lower credit margins. Despite the continuation of the financial market crisis, no improvement in the margins in the client lending business can be observed so far. We have been able to invest our free cash flow far more profitably on the interbank market, including the HSBC Group, as the credit and liquidity spreads have widened substantially in the wake of the financial market crisis.

Current income from equities and other non-interest-bearing securities rose sharply from €38.4 million to €107.4 million, thanks to exceptionally high dividend payments on shares in the trading portfolio. This led to a corresponding decline in income from financial transactions.

Net fee income increased by 10.8% to €220.4 million. Fee income was up 16.0% to €399.5 million, while fee expenses increased by 23.2% to €179.1 million. The more than proportionate increase in fee expenses is, above all, the result of the strong expansion in transaction volume which led to a sharp increase in third-party fees and securities settlement costs which could not be passed on in full. It should be pointed out that fees in the securities business increased significantly despite the uncertainties on the financial markets since the middle of the year. On the one hand, we benefited from higher transaction volumes reflecting not least the steady growth in the number of our clients and the intensification of existing client relationships. On the other, this success can also be attributed to the trust which our clients place in our consulting expertise in particular in the current difficult market situation. We managed to step up our cooperation with HSBC substantially in the year under report in particular in the securities business. For example, we acted as custodian for Germany in the HSBC Group last year. There was also a strong improvement in our issuing and structuring business. Net fee income here was up once again by €12.3 million or 60.2% to €32.8 million. This success is based on the successful placement of a structured profit-participation rights issue (H.E.A.T III) in the first quarter. We were able to more than double earnings in the corporate finance business, thanks to the successful structuring and placement of capital increases. As sole lead manager in the capital increases carried out by ersol Solar Energy AG and Nordex AG, the Bank provided evidence of its capital market and sector expertise in the renewable energy segment. This was set against a reduction in earnings in the real estate business. HSBC Trinkaus & Burkhardt placed no real estate funds in the year under report, due primarily to the enormous purchase price increases with correspondingly lower returns for properties in connection with the internationalisation of the real estate markets. A property was acquired in Brisbane (Australia) just before the end of the year which is to be marketed as a fund.

Following €38.7 million in net income from financial instruments last year, this year the Group reported €177.5 million in net losses from financial instruments. This figure, pursuant to German GAAP, is marked materially by the imparity and realization principles, but it is not a meaningful guide in economic terms. This is all the more true as interest and dividend income from trading activities and the corresponding funding costs are not included in this item pursuant to German GAAP. By contrast, pursuant to IFRS trading profit was down by 3.8% to €100.1 million, thus falling only just short of the previous year's high. We again enjoyed particular success in marketing retail products under our HSBC Trinkaus Retail Derivatives brand (www.hsbc-zertifikate.de). With the issue of more than 20,000 certificates and warrants we reached a new high in 2007. This guarantees that we will always be able to present offers which are perfect for the respective market environment in fast-moving times as well. It should be pointed out here that in particular we were able to quote tradable prices for all of our issues at all times, even given the major market turmoil. Furthermore, we benefited from the favourable sentiment on the European bond and equity markets in the first half of the year as well as from the major volatilities on these markets in the second half. The apportionment of trading profit to the individual types of product shows that we still focus on the equities and equities/index derivatives business, while in interest rate products and derivative trading we rely very strongly on the global trading books of the HSBC Group. At €79.0 million trading profit from equities and equity derivatives fell only just short of the good prior-year figure of €80.1 million. There was also a slight decline in our interest rate products trading activities to €10.9 million. Thanks to its good liquidity position the Bank was able to benefit from the wider credit and liquidity spreads, but investor uncertainty as a result of the subprime crisis led to declining trading profits from interest rate products in the second half of the year. In our foreign exchange trading activities we were almost able to repeat our prior-year performance in the year under report.

Overall, general administrative expenses increased by 11.1% to €294.8 million. The growth in staff expenses of €14.4 million or 8.2% to €190.0 million is the result on the one hand of the further increase in our staff as we continue along our strategic growth path. On the other, we honoured the record result in 2007, thanks to the profitable implementation of our growth course with higher performance-related remuneration for our staff.

Other administrative expenses increased by €29.5 million or 16.9% to €118.8 million. The increase is essentially the result of higher fees for IT advisory services for the further modernisation of our IT infrastructure as well as statutory provisions. With MiFID having been implemented on time and the preparations for converting to the Basel II provisions having been completed successfully in the year under report–along with the SEPA project–the preparations for the implementation of the withholding tax got under way towards the end of the year. These projects will lead to expenses going into millions. The further modernisation of the IT infrastructure is in line with our strategic growth plan. Alongside the fees for advisory services, additional group expenses as a result of our stronger cooperation with the HSBC Group led to an increase in administrative expenses.

Other operating expenses and income did not include any special factors, as in the previous year. Net income from profit transfer agreements reported another significant rise of €11.9 million or 25.0%, thanks mainly to higher earnings of HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH.

In cross-segment compensation we recorded net expenses of €9.4 million, down from net income totalling €4.4 million in the prior year. The persistently good quality of our credit portfolio once again led to an income figure in our lending business, although its size declined from €4.0 million in the prior year to €1.4 million. On balance, this led to a loss of €10.8 million for securities included in the liquidity reserve, whereas an income figure of €0.4 million was recorded on balance in the prior year.

Income tax declined from €62.6 million to €25.3 million on account of the lower profit on ordinary activities. In return, capitalised deferred tax had to be adjusted to the lower tax rates, resulting on balance in a tax rate of 40.2%, up from 35.8% in the prior year.

The asset situation

In 2007 the balance sheet total again grew substantially by 15.5% to €17.8 billion. On the assets side, there was a significant rise compared to the previous year in particular in loans and advances to clients of 30.3% to €4.6 billion as well as in debt securities of 48.3% to €6.8 billion. By contrast, there was a 13.7% reduction in loans and advances to banks to €3.9 billion as well as in balances with the Deutsche Bundesbank of 23.8% to €0.3 billion, which was reporting-date related. While our trading portfolios of equities declined significantly, the investment fund portion of the liquidity reserve was increased substantially, as a result of which equities and other variable-income securities declined by 10.5% to €1.3 billion on balance. On the liabilities side, compared to the previous year there was an increase in customer accounts of 17.5% to €9.6 billion, of deposits by banks of 42.3% to €2.5 billion and in other liabilities of 60.5% to €1.2 billion, whereas securitised liabilities decreased by 7.1% to €3.0 billion.

The growing number of client relationships is associated with the expansion of our lending portfolio, in particular in the corporate client business. This is evident above all from the growth in loans and advances to clients. On the other hand, the decline in loans and advances to banks and the increase in debt securities is due above all to overnight money being exchanged for short-term certificates of deposit in order to make better use of the excellent liquidity position and also to balance-sheet-date-related effects. One reason for the excellent liquidity situation is the very high levels of client deposits. These reflect the significant inflows of funds in the business with high net worth 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 securitised liabilities was offset to a marginal extent by the expiry of large-volume variable-rate bank debentures in the year under report. The increase in deposits by banks is mainly balance-sheet-related, just as the increase in other liabilities is due mainly to an increase in short sales as of the balance sheet date.

The market values of derivatives declined slightly in both financial assets and liabilities held for trading owing to the trend in interest rates, although we further expanded the derivatives business in cooperation with HSBC.

The financial position

On the balance sheet date, the equity ratio and Tier 1 capital ratio according to the German Banking Act (Kreditwesengesetz–KWG) was 11.3% and 6.5%, 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 2007, while regulatory capital in the Group remained unchanged at €1.0 billion. The increase in risk assets is based primarily on the growth in loans and advances to clients. For the purpose of calculating regulatory capital, profit retention and the non-recognition of participatory capital owing to it falling below the two-year residual term limit cancelled each other out.

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 1.58 for the end-of-month positions.

Outlook

There were growing signs over the course of 2007 that the global upswing will lose momentum in 2008. The slowdown which is emerging was prompted by the real estate boom in the US coming to an end and the resulting global banking and financial market crisis which is also likely to dominate much of 2008. In this environment, there is a threat of a notable slowdown in growth in the USA which the US central bank is trying to counter by sharply reducing interest rates.

The German economy will not be able to escape this downtrend. Not only are its most important trading partners experiencing weaker growth, German companies and consumers are also likely to be hit by the financial market crisis via a restrictive lending policy on the part of the banking system. We are only expecting growth of around 1.5% in Germany and the Eurozone in 2008. The labour market as well as an increase in real wages should have a supportive effect on German growth. The ECB is likely to pay tribute to the worsening growth prospects towards the middle of the year and introduce a cycle of interest rate cuts. By the beginning of 2009 we are expecting a reduction of the repo rate from its current level of 4.0% in at least two steps. A significant increase in yields at the long end of the yield curve need not be anticipated in this environment.

The situation on the German banking market has seldom been so difficult. It has only been possible for several institutions to save themselves from insolvency by seeking external assistance amounting to billions. The capacity of other individual institutions to carry risk has been reduced by wrongly assessing the risk content of positions they entered into. In this challenging environment, we plan to use our clear client focus and strong balance sheet to gain further market shares. We should succeed in this as we are able to concentrate on the business with our clients, and valuable resources are not tied up by internal restructuring measures.

The starting base is very high given the successes achieved in the 2007 financial year in which we clearly met our forecast despite the start of the subprime crisis in the summer. This applies all the more as we have been able to generate clearly double-digit growth rates in our operating profit in each of the past five years and therefore have a record result as a basis of comparison. We believe there will be a substantial reduction in the volume of revenues generated by the banks in Germany in 2008. The question as to whether the targeted market share gains will be sufficient to maintain the revenue base at the prior-year level remains open at present.This is the condition to succeed in balancing out the increase in administrative expenses and maintaining operating profit more or less at the prior-year level.

It is a precondition that there are no further major share price losses on the stock markets so that there is no major slump in transaction volumes compared to the previous year. The credit risk costs, which made a positive contribution to the operating profit on a portfolio basis from 2005 to 2007 as a result of the release of loan impairment provisions for individual large commitments, should be in the single-digit million range. We are not yet expecting any significant deterioration in borrower creditworthiness for the portfolio as a whole, but fear a reduction in credit quality in individual cases.

Administrative expenses will continue to rise. There is accumulated demand on account of significantly higher transaction volumes and the positions which have been planned for this, but not yet filled. We will continue to strengthen our investment banking activities as a strategic project and not allow ourselves to be put off by the current market distortions. We will not be able to escape the significant increase in costs as a result of administrative and regulatory provisions. We regard a cost:income ratio ranging from 65% to 70% in terms of operating profit as adequate for our business model of a universal bank with a wide range of products for our clients. The favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. We would regard an operating profit and net income before tax at the level of 2007 as a clear success for our Bank, with its deliberately strong capital market and service orientation, also in comparison with other banks.

We are expecting the successful performance seen in all client segments in recent years to continue. 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 solid growth. The performance of important asset categories will presumably require the greater use of structured products in 2008 in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. It is also essential to adjust as best as possible to the new tax provisions. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident that we can expand our market position and generate an earnings contribution comparable to the previous year. 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. This statement applies not only to the syndicated loan business with internationally operating groups, but also increasingly to the upper Mittelstand segment. The banking crisis has not yet led to the notable widening of credit margins. We fail to understand why other banks offer interest rates which are below the refinancing costs of these institutions on the capital market, in particular for client loans with mid-range and long maturities. This conduct illustrates the distortions which still exist in the German banking system. Following the significant expansion of our credit portfolio in recent years, we will extend our credit volumes only on a selected and earnings-oriented basis overall. The earnings contribution in the corporate banking business can therefore only be increased by our clients using additional banking services. A pure debtor-creditor relationship still does not offer an adequate basis for a lasting business relationship.

Our expectations for this year are also cautious as regards our business with institutional clients. It remains to be seen whether the expected decline in sales of structured credit products can be compensated by other products. 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. Thanks to our cautious approach to high-risk structures and the transparency of the risk profiles, the trust placed in us by our institutional clients is not questioned. 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, and can thus offer added value.

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 HSBC 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. However, investors already started to partly realise the high price gains from the emerging market funds in the final quarter of 2007, as a result of which placed volumes have declined and in keeping with this the fees received by the Bank have also been reduced.

The success of our subsidiary Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for fund administration will continue. A volume of more than €55 billion in fund administration creates economies of scale in the competition. The introduction of a new fund accounting system will be introduced this year, which ties up major resources, enabling the acquisition of new large mandates to be stepped up.

In addition, we will further improve our performance as a global custodian through integrated cooperation with HSBC Securities Services. The success with acquisitions in 2006 and 2007 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 retail derivatives sales initiative is expected to further improve our market position with respect to sales of certificates, warrants and mutual funds. However, as the slump in prices on the stock markets at the beginning of 2008 has led to a reduction in the risk capital of private investors, an increase in volumes and therefore also revenues is questionable, despite active product marketing. We will strengthen the technical platform and make our Internet presence even more attractive for our clients.

As a result of the reorganisation of our trading activities in the wake of the integration into the HSBC Group, the interest rate product and foreign exchange trading books are geared exclusively to supporting our client activities. We benefit here from the liquidity and risk-bearing capacity of HSBC's trading books. 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 retail derivatives sales initiative in the future. Overall, owing to this orientation growth in revenues from trading activities is more dependent on the performance of and turnover on the European stock markets than before. Even given an unexpectedly favourable general setting, it will scarcely be possible to reach the extremely high earnings contribution from trading recorded in 2007.

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. We successfully completed the Basel II project together with the introduction of a new reporting system with effect from 1 January 2008. We already fulfilled the new requirements of the European Markets in Financial Instruments Directive (MiFID) in November. After completing the introductory projects, it is now a question of fulfilling the requirements in day-to-day business. The Bank's already high regulatory costs, to which the requirements of the Sarbanes-Oxley Act (SOX) also contribute, will therefore be further increased. The introduction of SEPA (Single European Payments Area), which was prescribed by national legislation in implementing the EU provisions, can be referred to as an example of the provisions which the banks have to implement at their own expense and which will lead to lower earnings. The public service authorities are not prepared to implement the new standards themselves in the next few years. Apart from system separation in securities settlement an additional project will be the implementation of the new withholding tax in 2008. There will be a major need for the bank systems to adjust in this case as well, as the legislature lacks the political will to introduce clear standard regulations. On the other hand, in addition to the interest withholding tax which has already had to be collected for the tax authorities free of charge to date, the banks will also be required to transfer withholding tax for capital gains without being compensated for the costs involved with effect from 1 January 2009. Overall, despite the cautious management of resources we are expecting an increase in administrative expenses in the high single-digit percentage region for 2008 excluding the effect of the full-consolidation of ITS. Overall, despite the cautious management of resources, we project an increase in administrative expenses in the high single-digit percentage region for 2008.

Following the further issue of new participatory capital in 2006 and after the planned reinvestment of net income in 2007, the Bank's capital position is good and will enable the targeted and return-oriented expansion of our business activities. We will not increase our subordinated capital further as long as the distortions from the banking crisis continue. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business. We plan to generate an unchanged dividend for our shareholders for 2008.

Risk Management

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively managing it and systematically transforming it. We regard counterparty, market and liquidity risk, operative and strategic risks and not least also risks to our reputation as the principal risks of our banking business. Active risk control entails identifying the nature, amount and extent of any risk, and structuring the risk in such a way that it not only conforms to the Bank'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 avoid reputational and liquidity risk as far as possible and are prepared to accept lower profits as a consequence.

The extent of the Bank's overall risk is limited by the Management Board in consultation with the Supervisory Board. The appropriateness of taking on a given risk is also assessed in particular against the backdrop of the capacity to assume risks 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 within the Group's risk management organisation:

– the credit committee for counterparty risk

– the asset and liability management committee for market and liquidity risk

– the operational risks committee for operational risks including legal and reputational risks.

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

This organisational structure ensures that risks are promptly identified and that suitable measures are taken in good time–also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks 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 a detrimental effect on earning power in the medium term. It results primarily from the Bank's strategic orientation. HSBC Trinkaus & Burkhardt is particularly exposed to such risk as there is strong competition for our clients in the market on account of their major significance.

The Bank's strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent on our clients' activities on the equity, bond, foreign exchange and derivatives markets and also on the capital markets' capacity to absorb new interest rate and equity product issues. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for high net worth private clients, can only counteract this risk to a limited extent. Thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way via 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 by rationalising and automating our working processes. Information technology is becoming more and more important in this context.

The further modernisation of our IT architecture will demand significant personnel and financial resources in the future as well. These investments will be accompanied by increased expenses for third-party software and write-downs on software and hardware; there will be a further significant increase in the Bank's cost base as a result.

The increasing regulatory control in the German banking system and responsibilities stipulated by the government being passed on to the banks, such as money laundering control and the collection of taxes together with the accompanying examinations, has led to a significant increase in regulatory costs for the Bank about which we are extremely concerned. This trend will lead to a substantial increase in the Bank's fixed costs. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. We are extremely sceptical as to whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for the Bank.

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

a) Organisation of the credit processes

Counterparty risk may be subdivided into credit 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.

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.

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 Federal Financial Supervisory Authority (BaFin) in December 2005 are being consistently complied with. In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

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

In the light of the reform of the Basel Capital Accord, the Bank has used a 22-stage rating system to classify the credit quality of its corporate and institutional clients (see also section on Basel II) in the lending business since 2005. In order to determine the internal rating, the Bank uses four rating systems which cover the customer groups international corporations, German medium-sized companies, banks and financial service providers. These systems are already being used for risk classification and their details being constantly improved. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and any collateral agreements.

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

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

The expected probability of default for each borrower can be derived from the rating. On this basis, the expected loss for the individual loan exposures is estimated taking into account security and other agreements. A loan impairment provision is set up for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated over a period of time so that the cash value of these payments can be compared with the book value of the loan exposure. The loan impairment provision fully covers the shortfall calculated in this way.

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

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, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

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

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

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

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

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

b) Collateral and other credit enhancements

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

The Bank uses internally developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is recorded in the line system.

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a programme which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. The credit analyst obtains a valuation for securities for which no valuation is available.

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

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

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

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

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

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

c) Information on exposures which are neither past due nor impaired

The quality of the loans and advances (including financial guarantees and loan commitments) which are neither past due nor impaired is determined by means of an internal rating procedure (see a) above). Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto seven financial grades. Financial grades 1-5 comprise as a rule exposures which are neither past due nor impaired. As in the previous year, there was no restructuring of individual loan agreements.

d) Information on loans and advances which are past due but not impaired

The Bank's loans and advances which have not been impaired although past due are the result of the purchase of credit-insured foreign accounts receivable outside the European Union. These loans and advances amounted to €0.8 million in 2007 (2006: €0.4 million). No corresponding impairments were made on account of the possible recourse to the respective credit insurance. The fair value of the collateral was €0.7 million in the year under report (2006: €0.4 million).

There are also past due, but not impaired claims resulting from excess interest of €0.4 million (2006: €1.1 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was €0.5 million (2006: €1.4 million).

e) Information on exposures for which loan impairment and other credit risk provisions have been set up

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

Within the scope of its loan impairment and other credit risk provisioning HSBC Trinkaus & Burkhardt also sets up provisions for anticipated losses for individual financial guarantees and loan commitments: these amounted to €6.6 million (2006: €10.0 million) in the year under report.

In addition to individual impairment provisions, the Bank also carries out collective impairment provisions. These amounted to €3.7 million (2006: €5.1 million) for loans and advances and to €0.9 million (2006: €0.9 million) for financial guarantees and loan commitments.

f) Information on collateral held

As regards loans and advances which have been individually impaired, collateral and other credit enhancements in the form of guarantees, transfers of title and security as well as assignments are held, the value of which totalled €4.3 million (2006: €5.4 million) in the year under report.

g) Realisation of collateral held and drawing on other credit enhancements

Collateral held and other credit enhancements amounting to €0.9 million were realised and drawn on, respectively, in the 2007 financial year (2006: €0.0 million).

Basel II

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

The Basel II requirements were implemented at HSBC Trinkaus & Burkhardt by a central project group set up to coordinate implementation above all in the fields of credit, accounting and IT. The Bank already introduced a new Basel-II-compliant client rating system in 2005. The examination for certification of the internal rating systems by the German banking supervisory authorities took place in the first quarter of 2007 and there were no serious findings. The examination of the calculation of the capital requirements as well as for the final approval of the rating systems by the German banking supervisory authorities is planned for May 2008.

The Bank is still working closely together with the HSBC Group as regards the application of Basel-II-compliant methods, systems and processes. In doing so it benefits significantly from the international transfer of know-how between the Group's various units.

We focused in 2007 not only on revising the examination results and optimising the rating processes and data quality, but also on implementing standard software for equity capital backing and for generating supervisory reports. All of the necessary processes have been running without any significant problems since 1 January 2008. All of the requirements for the first report according to the new law have been implemented on time.

Operational risk

We define operational risk as the risk of losses caused by fraud, unauthorised activities, errors, negligence, inefficiency or system faults, as well as those caused by external events. Operational risks are inherent in any area of an organisation and embrace a broad spectrum. 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 control of operational risks as well as reputational risks across the board within the Bank. The Chairman of the committee is the Management Board member responsible for risk controlling. The committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank.

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

The operational risks identified within the scope of this self-assessment are weighted according to their loss potential and the likelihood of their occurrence before taking into account any risk reduction measures taken in order to determine the absolute inherent risk. On this basis, risks are then assigned to one of five risk categories, explicitly allowing for the control environment already implemented. If the committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. 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 losses incurred, are formally documented in a system developed by the HSBC Group. The decentralised coordinators for operational risks in the individual business divisions and 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 approved and particularly important points discussed in the Management Board meeting. This ensures that all Management 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 of profit, 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.

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

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

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The 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 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 therefore reduced.

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

Market risk

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

To measure market risks in our trading book under normal market conditions we have used 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 an historical simulation of risk factors over a period of 500 equally weighted trading days and covers interest rate, equity, foreign exchange and volatility risk. 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 trading activities. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits (including limits for sensitivities and special stress scenarios).

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

in € million	2007			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	9.2	7.2	4.8	10.7
Currency-related transactions	1.0	0.3	0.1	1.4
Equity/index-related transactions	3.6	5.4	3.0	9.7
Total potential market risk in the trading portfolio	**10.2**	**8.9**	**5.4**	**12.1**

in € million	2006			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	5.2	4.8	3.3	6.8
Currency-related transactions	0.3	0.4	0.1	1.0
Equity/index-related transactions	4.7	4.1	2.3	6.4
Total potential market risk in the trading portfolio	**7.6**	**6.4**	**3.4**	**9.1**

The model, with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to HSBC Trinkaus & Burkhardt AG's trading book pursuant to the Solvency Directive. The model-specific add-on factor currently amounts to 3.2. Specific risks as well as commodities risks are covered through the standard approach for regulatory purposes.

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

For 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 2007, 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 to avoid concentration risks and also 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. The disruption in the market for AMS products as a result of the subprime crisis in the USA has highlighted the extent to which fluctuations in the prices of financial instruments can depend on market liquidity. The subprime crisis has not resulted in any notable burdens for HSBC Trinkaus & Burkhardt as it holds almost no ABS positions.

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

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the asset and liability management committee on the basis of their capacity to assume risk. 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 overall, it was not necessary to reduce the risk limits in the latest financial year on overall Bank level. The Market Risk Controlling department also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

The average market risk potential in the long term investments (99% confidence interval/10-day holding period) came to €3.2 million (2006: €2.0 million). Market risks in the Bank's investment book are determined outside the risk models and are controlled at executive management level.

Liquidity risk

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

The trading portfolio is mainly self-financed by the trading department by taking up or issuing structured promissory note loans, bonds and certificates. Demand deposits and time deposits by customers are reinvested, despite a high level of core deposits in short-dated money market securities of the HSBC Group, as financial security within the scope of securities lending transactions to finance short-date forward buying by customers or in the inter-bank money market. Almost all bonds in the financial asset portfolio, as well as significant amounts of bonds in the trading portfolio, are eligible as collateral with the German Bundesbank as well as various clearing institutions. This fully covers the needs of our various business activities. In order to tap into additional liquidity reserves, we have been participating in the Deutsche Bundesbank's new electronic submission procedure for loan receivables since January 2007.

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 ratios are constantly monitored and liquidity commitment reports with various scenarios employed periodically. Our internal cash reserves still comfortably exceed the supervisory requirements. In the light of this, we are therefore not planning to introduce an internal model for liquidity risk. The tensions on the money markets resulting from the subprime crisis highlight the importance of responsible liquidity management. The Bank has not entered into any obligations arising from liquidity lines for SPVs. Our defensive business policy approach has proven itself in the crisis and is also to be upheld in the future.

Staff

Number of employees

The number of employees increased during 2007 by 135 compared to the previous year to a total of 1,401 at the end of the year. Eight trainees completed their banking qualifications and ten passed their examinations in office communications in the year under report. Two trainees also successfully completed their training in information technology. At the end of 2007 we were paying retirement, widow's and orphan's pensions to 546 recipients, compared to 533 at the end of the previous year.

Advanced training

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

Performance-related remuneration

Performance-related remuneration remains of major importance for motivating our staff, regardless of whether they are tariff or non-tariff employees. The incentive provided for our managerial staff in the form of profit-based payment is to be pointed out here in particular.

Thanks

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

Shareholders and Shares

Capital

At 31 December 2007 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 an unchanged share of 78.6% of this share capital and Landesbank Baden-Württemberg in Stuttgart indirectly held an unchanged share of 20.3%.

Share price and market value

During 2007 our share price rose 8.6% to €114.00. The lowest fixing price of the year was €101.00 and the highest €122.50. From the initial issue price of DM190 per DM50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in € million
31.12.1985	18,000,000	17.6	317.5
31.12.1990	22,000,000	19.8	435.3
31.12.1995	23,500,000	30.6	718.5
31.12.2000	26,100,000	110.0	2,871.0
31.12.2005	26,100,000	87.5	2,283.8
31.12.2006	26,100,000	105.0	2,740.5
31.12.2007	26,100,000	114.0	2,975.4

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

The value of a share–assuming reinvestment of the dividends and participation in all increases in capital–has increased by about 10.6 times since it was first listed. This is equivalent to a capital gain of around 11.2% per annum.

Dividends

For the 2007 financial year we propose paying a dividend of €2.50 per share (2006: €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 2007.

HGB Financial Statements

Annual balance sheet of HSBC Trinkaus & Burkhardt AG

Assets				31.12.2007	31.12.2006
	€	€	€	€	€ thousand
Cash reserve					
a) Cash on hand			1,662,605.34		1,828
b) Balances with central banks			330,252,166.06		433,923
of which with Deutsche Bundesbank	330,252,166.06				(433,923)
c) Balances with postal giro accounts			0.00		
				331,941,771.40	**435,751**
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks					
a) Treasury bills and non-interest-bearing treasury notes as well as similar debt instruments issued by public institutions					
of which with Deutsche Bundesbank			0.00		0
Eligible for refinancing	0.00				(0)
b) Bills of exchange					
of which with Deutsche Bundesbank			0.00		0
Eligible for refinancing	0.00			0.00	(0)
Loans and advances to banks					
a) Payable on demand			1,592,419,463.04		1,606,535
b) Other loans and advances			2,356,092,722.63		2,967,738
				3,948,512,365.67	**4,574,273**
Loans and advances to customers				4,632,455,406.90	3,554,488
of which secured by mortgages	0.00				0
Public-sector loans	563,733,147.15				(472,021)
Debt instruments and other fixed-income securities					
a) Money market instruments aa) From public issuers		0.00			0
ab) From other issuers		4,020,777,910.20			1,707,087
			4,020,777,910.20		**1,707,087**

Assets				31,12,2007	31,12,2006
	€	€	€	€	€ thousand
b) Debt instruments and other fixed-income securities					
aa) From public-sector issuers		288,943,434.35			254,412
of which eligible as collateral for Deutsche Bundesbank	288,943,434.35				(254,412)
ab) From other issuers		2,508,609,089.14			2,637,801
			2,797,552,523.49		2,892,213
of which eligible as collateral for Deutsche Bundesbank	1,998,768,422.87				(2,195,177)
c) Own debt instruments			10,451,328.97		6,581
Nominal amount	7,888,000.00				(5,133)
				6,828,781,762.66	**4,605,881**
Shares and other non-fixed-income securities				1,310,531,384.97	1,464,331
Equity holdings in non-affiliated companies				15,494,115.81	6,037
of which in banks	474,411.12				(474)
in financial services institutions	723,884.72				(724)
Equity holdings in affiliated companies				166,322,070.68	161,210
of which in banks	0.00				0
in financial services institutions	5,002,428.63				(2,602)
Trust assets				103,854,061.52	138,564
of which trust loans	695,281.25				(18,716)
Recovery claims against public institutions including exchange of debt instruments				0.00	0
Intangible assets				5,893,092.96	5,975
Property, plant and equipment				17,907,717.11	16,383
Unpaid capital				0.00	0
of which called in	0.00				(0)
Own shares				0.00	0
Nominal amount	0.00				(0)
Other assets				425,839,837.02	417,320
Deferred income tax assets				20,255,608.34	20,436
Prepaid expenses				30,491,691.29	45,700
Deficit not covered by equity				0.00	0
Total assets				**17,838,253,886.33**	**15,446,352**

Shareholders' equity and liabilities				31.12.2007	31.12.2006
	€	€	€	€	€ thousand
Deposits by banks					
a) Payable on demand			1,368,977,065.73		1,096,817
b) With agreed maturities or notice periods			1,129,159,808.27		658,901
				2,498,136,874.00	1,755,718
Customer accounts					
a) Savings deposits					
With agreed notice periods of three months		12,012,829.06			12,284
ab) With agreed notice periods of more than three months		1,227,054.90			1,340
			13,239,883.96		**13,624**
b) Other liabilities					
ba) Payable on demand		5,100,671,817.05			4,684,485
bb) With agreed maturities or notice periods		4,479,851,014.44			3,470,006
			9,580,522,831.49		8,154,491
				9,593,762,715.45	8,168,115
Certificated liabilities					
a) Debt instruments issued			2,966,955,081.95		3,194,523
b) Other certificated liabilities			0.00		0
of which own acceptances and promissory notes outstanding	0.00				0
				2,966,955,081.95	3,194,523
Trust liabilities				103,854,061.52	138,564
of which trust loans	695,281.25				(18,716)
Other liabilities				1,202,285,553.98	750,857
Deferred income				30,769,666.75	23,381
Provisions					
a) Provisions for pensions and similar obligations			130,543,467.34		127,909
b) Tax provisions			45,820,807.21		41,136
c) Other provisions			128,089,098.19		95,387
				304,453,372.74	264,432

Shareholders‘ equity and liabilities				31,12,2007	31,12,2006
	€	€	€	€	€ thousand
Special tax-deductible reserve in accordance with §52 EStG in connection with §5 para. 1 EStG				0.00	0
Subordinated debt				322,925,837.63	308,152
Profit participation capital				135,790,431.68	135,790
of which maturing in less than two years	35,790,431.68				0
Fund for general banking risks				0.00	0
Shareholders’ equity	0.00				0
a) Subscribed capital	70,000,000.00		70,000,000.00		70,000
- contingent capital	13,500,000.00				(13,500)
b) Share premium			210,520,290.63		210,250
c) Retained earnings					
Other retained earnings		320,000,000.00			314,500
			320,000,000.00		**244,500**
d) Unappropriated profit			78,800,000.00		111,800
				679,320,290.63	**706,820**
Total shareholders’ equity and liabilities				**17,838,253,886.33**	**15,446,352**

Contingent liabilities			
a) Contingent liabilities from the endorsement of rediscounted bills of exchange	0.00		0
b) Liabilities from guarantees and indemnity agreements	1,438,656,409.91		1,346,552
c) Liability from sureties pledged as collateral security on behalf of third parties	0.00		0
		1,438,656,405.91	**1,346,552**
Other commitments			
a) Liabilities from non-genuine sale and repurchase agreements	0.00		0
b) Placement and underwriting obligations	0.00		0
c) Irrevocable loan commitments	3,704,324,002.85		3,700,551
		3,704,324,002.85	**3,700,551**

Income statement of HSBC Trinkaus & Burkhardt AG

				2007	2006
	€	€	€	€	€ thousand
Interest income from					
a) Lending and money-market transactions		382,929,129.08			254,124
b) Fixed-income securities and book-entry debt		213,792,567.29			132,879
			596,721,696.37		**387,003**
Interest expenses			437,790,717.10		271,741
				158,930,979.27	**115,262**
Current income from					
a) shares and other non-fixed-income securities			107,391,511.24		38,408
b) Equity holdings in non-affiliated companies			533,499.17		307
c) Equity holdings in affiliated companies			852,080.77		609
				108,777,091.18	**39,324**
Income from profit pooling, profit transfer and partial profit transfer agreements				59,723,711.12	47,784
Fee income			399,507,919.65		344,323
Fee expenses			179,073,802.37		145,309
				220,434,117.28	**199,014**
Net expense from financial transactions (previous year net income)				177,481,767.49	38,714
Other operating income				17,745,384.31	12,093
Income from reversal of the special tax-deductible reserve				0.00	0
General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		160,581,406.98			145,993
ab) Social security contributions as well as post-employment benefits		29,429,163.60			29,637
of which			190,010,570.58		175,630
a) for retirement pensions	15,257,920.86				(15,926)
b) Other administrative expenditure			104,831,063.69		89,671
				294,841,632.27	**265,301**
Depreciation, adjustments and amortisation				8,220,912.27	7,530
Other operating expenses				6,330,592.73	6,642

				2007	2006
	€	€	€	€	€ thousand
Depreciation and adjustments for receivables and certain securities as well as allocations to loan-loss provisions			9,408,737.45		0
Income from write-ups on loans and certain securities as well as from the release of loan impairment provisions			0.00		4,365
				9,408,737.45	**4,365**
Depreciation and adjustments for equity holdings in affiliated and non-affiliated companies and securities treated as fixed assets			0.00		0
Income from write-ups of equity holdings in affiliated and non-affiliated companies and securities treated as fixed assets			2,999.49		0
				2,999.49	**0**
Expenses from the assumption of losses				6,226,845.92	2,180
Allocations to the special tax-deductible reserve				0.00	0
Profit from ordinary activities				63,103,794.52	174,903
Extraordinary income			0.00		0
Extraordinary expenses			0.00		0
Net extraordinary income/loss				0.00	0
Income taxes			25,347,754.23		62,606
Other taxes			6,040.29		997
				25,353,794.52	**63,603**
Income from assumption of losses				0.00	0
Profits transferred under profit pooling, profit transfer or partial profit transfer agreements				0.00	0
Net profit for the year				37,750,000.00	111,300
Profit brought forward from the previous year				41,050,000.00	500
				78,800,000.00	**111,800**
Withdrawal from share premium				0.00	0
Withdrawals from retained earnings				0.00	0
Withdrawals from profit participation capital				0.00	0
Allocations to revenue reserves				0.00	0
Replenishment of profit participation capital				0.00	0
Unappropriated profit				**78,800,000.00**	**111,800**

Notes to the Annual Financial Statements for 2007 of HSBC Trinkaus & Burkhardt AG

Basis of Preparation

General information

The annual financial statements of HSBC Trinkaus & Burkhardt AG as of 31 December 2007 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch [HGB]) in light of the requirements of the German Stock Corporation Act relating to the Bank's legal form in connection with the accounting rules for banks.

The figures in brackets refer to 2006.

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, registration number 617987. As of the end of 2007, HSBC Holdings plc indirectly held 78.6% of HSBC Trinkaus & Burkhardt AG's capital.

Summary of significant accounting policies

Foreign currency translation

Fixed assets are translated at the exchange rate prevailing on the date of purchase except where the exchange rate has been specifically hedged.

All other items denominated in a foreign currency are translated at the mean end-of-year spot exchange rate regardless of the date on which they arise or are due for settlement. In accordance with the imparity principle, any unrealised gains resulting from currency translation are not recognised.

Currency translation gains are recognised in the income statement if the foreign currency assets, liabilities or spot/ forward transactions not allocated to trading business exhibit particular cover with matching currencies, amounts and maturities. In the case of only matching currencies regardless of the term, the currency translation gains are recognised in the income statement only to the extent that they offset any currency translation losses.

Details concerning the treatment of foreign currency trading items can be found in the following section entitled "Measurement of transactions exposed to market risks".

Recognition of receivables from and liabilities to German-style capital investment companies

In accordance with the amendments to the German Investment Act of 21 December 2007, receivables from capital investment companies of €13.2 million are for the first time reported within loans and advances to customers and liabilities of €25.9 million within customer accounts.

Loans and advances

As a matter of principle, loans and advances arising in banking business are recognised at their nominal amount. Discounts and premiums are deferred and released proportionately within net interest income/expense.

There has been no change in the basis for measuring receivables. Accordingly, individual adjustments are made for acute loan impairment risks and general adjustments for latent risks. The adjustments thus calculated are deducted from the carrying amount of the loans and advances.

Reasonable provisions are set aside to allow for acute counterparty risks arising from contingencies (acceptance of guarantees and letters of credit, discounting of letters of credit, loan commitments).

Registered debt instruments are measured using the same principles applied to the portfolio of securities applying the strict lower-of-cost-or-market principle set forth in Section 253 (3) of the German Commercial Code. Impairment losses of €0.9 million (€6.5 million) from registered debt instruments have been recognised.

Securities

The entire securities portfolio comprising equities, debt instruments and other securities is measured using the strict lower-of-cost-or-market principle set forth in Section 253 (3) of the German Commercial Code. In this connection, allowance is also made for the derivatives instruments and forward transactions used for hedging purposes in measurement units. All securities are assigned to the trading book or the liquidity reserve. There are no securities treated as fixed assets.

In line with securities sold under agreements to repurchase, securities lent are reported in the balance sheet as securities. In line with securities bought under agreements to resell, securities borrowed are not reported as securities. Replacement obligations (short sales) are reported within other liabilities even if such transactions are settled by the delivery of borrowed securities or securities bought under agreements to resell.

Equity holdings in affiliated and non-affiliated companies

Equity holdings in affiliated and non-affiliated companies are reported at the lower of cost or permanently lower market value.

Property, plant and equipment

Property, plant and equipment are reported at cost and–if subject to ageing–depreciated on a systematic straight-line basis.

Minor-value assets are written off in full in their year of addition. There was no accelerated depreciation in 2007.

The value of permanently impaired assets is written down accordingly.

Buildings are subject to straight-line depreciation over a period of 50 years or a shorter remaining period of utilisation. Tenant fixtures are depreciated on a straight-line basis over the term of the lease.

Depreciation of operating and business equipment is calculated on the basis of useful lives determined in accordance with tax law.

Liabilities and provisions

Liabilities are reported at their settlement amount. Any discount or premium is reported within prepaid expenses or deferred income, as the case may be, and released proportionately within net interest income/expenses. Non-interest-bearing liabilities, e.g. zero coupon bonds, are reported at their present value.

Pension provisions are calculated on the basis of the actuarial net present value ("Teilwert") of the obligation calculated using the German entry age normal method at an interest rate of 6%; pensions provisions set aside for employees who joined the Company on or after 1 January 2001 and for whom an amount exceeding the net present value of the obligation calculated using the German entry age normal method arises were calculated using the project unit credit method (IFRS). For this purpose, the following parameters were applied: long-term interest rate 5.5%, expected salary trend 3.0%, expected pension adjustment 2.0%, expected inflation rate 2.0% and expected increase in contribution threshold amount for social security 2.5%.

In addition, there are pension provisions calculated at an annuity of 7.5% p.a. as well as further pension provisions calculated at an annuity of 6.0% p.a. The pension obligations are based on the mortality tables revised in 2005.

Other provisions are calculated in accordance with the principles of prudence to sufficiently allow for all discernible risks.

Measurement of transactions exposed to market risks

The trading transactions exposed to market risk are recognised in the light of the risk management principles applying a portfolio approach. Individual items exhibiting the same risk structure are combined to form market risk units. In connection with portfolio measurement, unrealised gains net of unrealised losses on the individual items are calculated. In accordance with the imparity principle, a negative balance (= net unrealised loss) is recorded in the income statement. On the other hand, a positive balance (= net unrealised gain) is eliminated.

Unrealised gains and losses are calculated by marking the purchase prices to market in accordance with the following principles:

Interest-rate transactions

In the case of exchange-traded products, the price listed on the exchange in question, or the equivalent fair value, is applied. In the case of non-exchange-traded products (OTC products), the net present value is applied. This is calculated by discounting future cash flows on the basis of interest and volatility curves and, depending on the product, making allowance for deferred interest.

Foreign exchange transactions

Foreign exchange transactions are measured in accordance with the provisions set out in Section 340h of the German Commercial Code.

Forward and spot currency transactions are translated at the corresponding end-of-year spot or forward exchange rate. In the case of currency options traded on an exchange, the price fixed by such exchange is applied. In the case of non-exchange-traded foreign exchange options, the market price is calculated by reference to the spot exchange rates for the currency in question, the market swap rates and the volatility traded in the market on the balance sheet date.

Transactions with other price risks

In the case of equity or index-related transactions traded in a domestic or non-domestic exchange, the price listed on such exchange or the equivalent fair value as of the balance sheet date is applied. The price of non-exchange-traded products is determined by reference to spot equity prices, the interest structure curve, expected dividend payments and market-related volatility structures.

Compensation in the income statement

Expenses and income arising in connection with loan impairment provisioning are compensated for in the income statement.

Notes on the Balance Sheet

Analysis of residual maturity

Loans and advances to banks

in € million	31.12.2007	31.12.2006
a) Payable on demand	1,592.4	1,606.6
b) Other loans and advances payable in	2,356.1	2,967.7
up to three months	1,383.0	2,326.7
more than three months but up to one year	718.0	33.1
more than one year but up to five years	81.2	121.8
more than five years	173.9	486.1
Total	**3,948.5**	**4,574.3**

Loans and advances to customers

in € million	31.12.2007	31.12.2006
Payable in		
up to three months	2,842.4	2,111.0
more than three months but up to one year	269.3	173.4
more than one year but up to five years	595.4	443.0
more than five years	925.3	827.1
Total	**4,632.4**	**3,554.5**

Deposits by banks

in € million	31.12.2007	31.12.2006
a) Payable on demand	1,369.0	1,096.8
b) With agreed maturities or notice periods	1,129.1	658.89
Payable in		
up to three months	1,089.1	577.7
more than three months but up to one year	24.8	42.5
more than one year but up to five years	10.6	34.0
more than five years	4.6	4.7
Total	**2,498.1**	**1,755.7**

Customer accounts

in € million	31.12.2007	31.12.2006
a) Savings deposits	13.2	13.6
Payable in		
up to three months	12.0	12.3
more than three months but up to one year	0.1	0.1
more than one year but up to five years	0.2	0.0
more than five years	0.9	1.2
b) Other liabilities	9,580.6	8,154.5
ba) Payable on demand	5,100.7	4,684.5
bb) With agreed maturities or notice periods	4,479.9	3,470.0
Payable in		
up to three months	2,744.9	1,726.8
more than three months but up to one year	128.3	171.2
more than one year but up to five years	306.0	418.5
more than five years	1,300.7	1,153.5
Total	**9,593.8**	**8,168.1**

Certificated liabilities

in € million	31.12.2007	31.12.2006
a) Debt instruments issued payable in	2,967.0	3,194.5
up to three months	313.5	95.7
more than three months but up to one year	1,441.4	2,009.4
more than one year but up to five years	865.3	668.1
more than five years	346.8	421.3
b) Other certificated liabilities payable	0.0	0.0
up to three months	0.0	0.0
more than three months but up to one year	0.0	0.0
Total	**2,967.0**	**3,194.5**

Affiliated companies–receivables and liabilities

in € million	31.12.2007	31.12.2006
Loans and advances to banks	1,805.8	505.6
Loans and advances to customers	82.6	72.1
Debt instruments	3,856.3	2,010.7
Deposits by banks	964.2	718.9
Customer accounts	206.8	236.5
Certificated liabilities	0.0	0.0
Subordinated debt	0.0	0.0

Non-affiliated companies–receivables and liabilities

in € million	31.12.2007	31.12.2006
Loans and advances to banks	0.0	0.0
Loans and advances to customers	1.4	0.5
Debt instruments	0.0	0.0
Deposits by banks	0.0	0.0
Customer accounts	0.9	1.0
Certificated liabilities	0.0	0.0
Subordinated debt	0.0	0.0

Trust activities

Trust assets and liabilities break down as follows:

Trust assets

in € million	31.12.2007	31.12.2006
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.7	18.7
Trust equity holding	103.2	119.9
Total	**103.9**	**138.6**

Trust liabilities

in € million	31.12.2007	31.12.2006
Deposits by banks	0.0	0.6
Customer accounts	103.9	138.0
Total	**103.9**	**138.6**

Foreign currency

As of 31 December 2007, assets denominated in a foreign currency were valued at €1,146.5 million (€959.7 million). Total liabilities denominated in a foreign currency came to € 1,301.5 million (€927.9 million).

Loans and advances to banks

Balances with a nominal amount of €827.2 million (€1,037.0 million) were pledged as collateral for securities loan business as of the balance sheet date.

Loans and advances to customers

This item includes loans and advances with an indefinite settlement period of €242.2 million (€184.5 million).

Debt instruments and other fixed-income securities

in € million	31.12.2007	31.12.2006
Liquidity reserve	583.2	566.7
Trading book	6,245.6	4,039.2
Total	**6,828.8**	**4,605.9**

Securities with a carrying amount of €4,342.1 million (€2,030.3 million) are eligible for listing on an exchange but are not listed.

Debt instruments with a nominal value of €1,767.0 million (€1,878.3 million) were available for use as collateral for peak funding facilities on the balance sheet date. An open market transaction of €100.0 million (€0.0 million) with Deutsche Bundesbank was outstanding as of the balance sheet date.

No securities (€0.2 million) had been sold under agreements to repurchase as of the balance sheet date.

Fixed-rate securities with a nominal value of €557.0 million (€473.3 million) had been pledged as security for transactions on the Eurex and for securities lending operations.

Debt instruments and other debt instruments with a carrying amount of €4,299.4 million (€1,896.2 million) will be due for settlement in 2008.

Shares and other non-fixed-income securities

in € million	31.12.2007	31.12.2006
Liquidity reserve	764.6	587.0
Trading book	545.9	877.3
Total	**1,310.5**	**1,464.3**

This item includes securities eligible for listing on an exchange of €736.9 million (€922.5 million). Securities with a carrying amount of €10.9 million (€0.0 million) are eligible for listing on an exchange but are not listed. Securities not eligible for listing on an exchange are valued at a total of €573.6 million (€541.8 million).

Equities with a carrying amount of €286.1 million (€0.0 million) have been pledged as collateral for securities lending operations. As of the balance sheet date, equities with a carrying amount of €952.2 million (€761.7 million) had been lent. As in the previous year, there were no transactions with shares and other non-fixed-income securities sold under agreements to repurchase.

Under the terms of a contractual trust arrangement (CTA), the Bank transferred all the shares in a special fund with a carrying amount of €145.8 million (€145.8 million) to a trust company on 1 September 2005.

Subordinated assets

in € million	31.12.2007	31.12.2006
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.1
Debt instruments		
Other issuers	85.8	69.2
Own debt instruments	0.0	0.0

Equity holdings in affiliated and non-affiliated companies

As in previous periods, the equity holdings in non-affiliated companies do not include any exchange-listed securities. As in the previous year, equity holdings in affiliated companies do not include any shares eligible for listing on an exchange.

A list of the financial assets can be found in the section “Shareholdings”.

Fixed assets

Property, plant and equipment comprise business and operating equipment with a carrying amount of €17.6 million (€16.0 million).

The Bank owns 20 parking spaces in a garage complex at Kö-Center, Düsseldorf, which it uses in its own business activities.

In 2007, minor-value assets of €0.7 million (€0.6 million) were written off immediately in the AG financial statements.

Movements in fixed assets are analysed in the section “Changes in Fixed Assets”.

Treasury shares

As in the previous year, HSBC Trinkaus & Burkhardt AG did not hold any treasury shares at the end of 2007. As of the balance sheet date, 540 (540) shares in HSBC Trinkaus & Burkhardt AG, equivalent to 0.002% (0.002%) of its share capital, were pledged to the Bank as collateral in connection with a loan transaction.

As part of market-smoothing operations in connection with the authorisation provided by the shareholders at the Annual General Meeting, the AG acquired a total of 14,861 (195,023) treasury shares, equivalent to 0.06% (0.2%) of its share capital, which it then sold again. The average purchase price per share came to €113.38 (€87.34). The average selling price stood at €115.01 (€87.82). The proceeds from these transactions are included in net operating profit. The greatest daily holding was 8,507 shares (191,575 shares) or 0.03% (0.73%) of the share capital.

Other assets

Other assets primarily comprise option premiums and collateral for futures contracts of €279.4 million (€325.2 million) as well as receivables from affiliated companies and tax reimbursement claims of €127.4 million (€76.2 million).

Deferred income tax assets

This item includes deferred income tax assets of €20.3 million (€20.4 million) arising from differences between commercial and tax law in the timing of the recognition of expenses.

Prepaid expenses

Prepaid expenses comprise:

in € million	31.12.2007	31.12.2006
Discounts from liabilities	2.8	3.4
Premium from receivables	11.9	36.6

Deferred income comprises:

in € million	31.12.2007	31.12.2006
Discounts from receivables	20.5	2.8
Premiums from liabilities	3.6	8.5

Other liabilities

Other liabilities primarily comprise option premiums of €553.7 million (€564.4 million) and replacement obligations under short sales of €577.9 million (€121.0 million) as well as tax liabilities of €27.8 million (€27.5 million) and deferred interest on profit participation capital and subordinated liabilities of €15.7 million (€11.9 million).

Certificated liabilities

Of the certificated liabilities issued, a sum of €1,754.9 million will fall due for payment within the next year.

Provisions

Pension provisions

All pension obligations recognised in the balance sheet have been verified by actuarial reports.

Tax provisions

As in the previous year, the parent company financial statements do not include any deferred taxes.

Other provisions

in € million	31.12.2007	31.12.2006
Other credit risk provisions	6.5	9.8
Personnel provisions	86.2	58.2
Other provisions	35.4	27.4
Total	**128.1**	**95.4**

Subordinated debt

Liabilities include subordinated debt instruments and borrower's note loans with a total value of €322.9 million (€308.2 million). In 2007, interest expenditure on all subordinated debt came to €15.6 million (€13.9 million).

No single debt instrument issued exceeds 10% of the total subordinated debt. There are no premature repayment obligations.

Interest on subordinated debt

Interest	Nominal amount (in € million)
4% to less than 5%	128.2
5% to less than 6%	167.1
6% to less than 7%	0.0
7% to less than 8%	2.6
8% to less than 9%	0.0
Fixed rate	297.9
Variable	25.0
Total	322.9

Repayment of subordinated debt

Due for payment in	Nominal amount (in € million)
< 1 year	0.0
> 1 year to up to 5 years	69.5
> 5 years	253.4
Total	322.9

Ranking arrangements

All subordinated debt has a lower ranking than the non-subordinated claims held by other creditors to payment of the Bank's capital. This subordination applies in the event of liquidation, insolvency and any procedures to avert insolvency.

Subordinated debt of €299.7 million (€299.0 million) is included in the calculations of liable equity in accordance with Section 10 (5a) of the German Banking Act.

Profit participation capital

The Bank utilised the authorisation granted by the shareholders on 16 June 1992 to issue profit participation certificates in December 1993.

The holders of profit participation certificates receive an annual dividend of 7.0% with a prior ranking over the shareholders' profit entitlement.

The profit participation certificates took effect in December 1993 and expire at the end of 2008; they will be repaid at their nominal amount on 30 June 2009 subject to the provisions governing participation in an unappropriated deficit.

In accordance with the authorisation granted by the shareholders on 30 May 2006, the AG issued registered profit participation certificates of €100.0 million in four tranches in September 2006. The term of the registered profit participation certificates for €6.0 million and €5.0 million, respectively, expires on 31 December 2016. The annual dividend ratio stands at 4.77% and 4.78%, respectively. The term of the registered profit participation certificates for €52.0 million and €37.0 million, respectively, expires on 31 December 2020. The annual dividend ratio stands at 4.89% and 4.91%, respectively. The nominal amount is repaid six months upon expiry subject to the provisions governing participation in an unappropriated deficit.

Profit participation capital of €100.0 million satisfies the conditions stipulated in Section 10 (5) of the German Banking Act, and is therefore acknowledged for regulatory purposes as Tier 2 capital.

The terms and conditions applicable to all issues stipulate that the claims under the securities have a lower ranking than the non-subordinated claims held by all of HSBC Trinkaus & Burkhardt AG's other creditors. They have the same ranking as all other subordinated debt held by HSBC Trinkaus & Burkhardt AG. In accordance with the terms and conditions of issue, the bearer and registered profit participation certificates participate in any unappropriated loss.

In the event of any amendment to tax legislation, HSBC Trinkaus & Burkhardt AG is entitled to terminate the bearer and registered profit participation certificates. The bearers of the profit participation certificates have no right of termination and/or premature recovery of their capital.

Shareholders' equity

The AG's subscribed capital is unchanged at €70.0 million. In accordance with the resolution passed by the shareholders at their Annual General Meeting on 9 June 1998, it is divided into 26,100,000 no-par-value bearer shares.

The share premium is unchanged at €210.5 million. Pursuant to the resolution passed at the Annual General Meeting of 5 June 2007, an amount of €65.3 million (€111.8 million) was distributed from the unappropriated profit. A sum of €5.5 million was retained and profit of €41.1 million carried forward. Retained earnings stand at €320.0 million.

In accordance with a resolution passed by the shareholders at the Annual General Meeting of 3 June 2003, the Management Board is authorised to increase the share capital by up to €23.0 million on or before 31 May 2008 with the Supervisory Board's approval by issuing new bearer shares on a cash or non-cash basis once or repeatedly (authorised capital).

There is contingent capital of up to €13.5 million through the issue of bearer shares. The contingent capital may be utilised only to the extent that the holders of convertible and option rights make use of such rights under the convertible or option bonds or profit participation rights with conversion and option rights to be issued on or before 31 May 2008 (contingent capital).

As of the balance sheet date, the unrealised reserves required to be disclosed in accordance with Section 340c (3) of the German Commercial Code and subject to allocation to the Bank's liable equity in accordance with Section 10 of the German Banking Act stood at €10.7 million (€10.7 million) in fixed-income securities held in the investment book and €24.0 million (€12.7 million) in non-fixed-income securities held in the investment book.

As in earlier years, HSBC Trinkaus & Burkhardt did not make use of the option to assign unrealised reserves in land and buildings as Tier 2 capital in accordance with Section 10 (4a) of the German Banking Act to its liable equity.

Notes on Contingencies

Other obligations

There were no buyback obligations under non-genuine sale and repurchase agreements or placement or underwriting obligations for financial instruments as of the balance sheet date.

Other contingent liabilities and other financial obligations not apparent from the balance sheet

The liable amounts from shares in cooperatives were unchanged at €0.2 million at the end of the year. The duty to provide additional capital in connection with the share in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, is valued at €3.7 million and is linked with a directly enforceable guarantee for the settlement of the duty to provide additional capital on the part of the others shareholders who are members of Bundesverband deutscher Banken e. V.

Liabilities from long-term rental and leasing agreements

€ million	31.12.2007	31.12.2006
Total	**39.3**	**39.8**
Of which due to affiliated companies	6.5	5.9

On 1 January 2008, HSBC Trinkaus & Burkhardt AG acquired 49% of the capital of International Transaction Services GmbH (ITS).

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of €3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of €2.1 million is still outstanding.

Transactions Exposed to Market Risk

Transactions with financial derivatives

		Nominal amounts due for settlement in		
in € million		up to 1 year	over 1 year up to 5 years	over 5 years
Interest-rate transactions				
OTC products	FRAs	260	3	0
	Interest-rate swaps	5,155	12,075	9,712
	Interest-rate options–purchases	1,976	3,227	3,975
	Interest-rate options–sales	766	3,067	4,598
	Forward transactions	319	0	0
Exchange-traded products	Interest-rate futures	2,803	973	0
	Interest-rate options	0	0	66
	Total	**11,279**	**19,345**	**18,351**
Foreign exchange transactions				
OTC products	Forward exchange transactions	22,945	1,500	43
	Cross-currency swaps	7	31	55
	Foreign-exchange options–purchases	1,877	475	0
	Foreign-exchange options–sales	1,827	373	0
Exchange-traded products	Currency futures	2	0	0
	Total	**26,658**	**2,379**	**98**
Equity/index transactions				
OTC products	Equity/index options–purchases	154	230	204
	Equity/index options–sales	128	61	18
Exchange-traded products	Equity/index futures	1,122	0	0
	Equity/index options	5,548	3,386	78
	Total	**6,952**	**3,677**	**300**
Credit transactions				
OTC products	Credit default swaps–purchases	0	0	0
	Credit default swaps–sales	0	0	0
	Total	**0**	**0**	**0**
Total financial derivatives		**44,889**	**25,401**	**18,749**

		Nominal amounts		Market value			
				Positive		Negative	
in € million		2007	2006	2007	2006	2007	2006
Interest-rate transactions							
OTC products	FRAs	263	5	0	0	0	0
	Interest-rate swaps	26,942	27,359	432	546	399	562
	Interest-rate options–purchases	9,178	11,721	179	340	0	0
	Interest-rate options–sales	8,431	11,407	0	0	199	344
	Forward transactions	319	572	3	0	3	0
Exchange-traded products	Interest-rate futures	3,776	5,503	1	9	3	8
	Interest-rate options	66	0	0	0	0	0
	Total	48,975	56,567	615	895	604	914
Foreign exchange transactions							
OTC products	Forward exchange transactions	24,488	23,941	476	292	472	289
	Cross-currency swaps	93	90	4	2	5	2
	Foreign-exchange options–purchases	2,352	1,848	131	59	0	0
	Foreign-exchange options–sales	2,200	1,733	0	0	116	41
Exchange-traded products	Currency futures	2	16	0	0	0	0
	Total	29,135	27,628	611	353	593	332
Equity/index transactions							
OTC products	Equity/index options–purchases	588	205	66	68	0	0
	Equity/index options–sales	207	27	0	0	60	56
Exchange-traded products	Equity/index futures	1,122	950	24	5	2	4
	Equity/index options	9,012	10,448	385	430	330	326
	Total	10,929	11,630	475	503	392	386
Credit transactions							
OTC products	Credit default swaps–purchases	0	10	0	1	0	0
	Credit default swaps–sales	0	10	0	0	0	1
	Total	**0**	**20**	**0**	**1**	**0**	**1**
Total financial derivatives		**89,039**	**95,845**	**1,701**	**1,752**	**1,589**	**1,633**

The option premiums paid of €272.7 million (€317.0 million) as well as the collateral for futures contracts paid of €6.7 million (€8.2 million) are reported within other assets.

The option premiums received and the collateral for futures contracts received of €553.7 million (€564.4 million) are reported within other liabilities.

Breakdown of market values by counterparty

		31.12.2007	
in € million		Positive	Negative
OECD	Central governments	0	0
	Banks	1,536	821
	Financial institutes	44	150
	Others	114	613
Non-OECD	Central governments	0	0
	Banks	1	1
	Financial institutes	0	0
	Others	6	4
Total		**1,701**	**1,589**

Reporting on transactions with derivatives in accordance with Section 36 of the Bank Accounting Regulations follows the recommendations of the Accounting Committee of the German Federal Association of Banks. In accordance with international standards, the market values stated reflect the replacement costs as of the balance sheet date in the event of counterparty default regardless of their credit rating and any netting arrangements.

Most of the transactions with derivatives are accounted for by trading activity.

Market risks

HSBC Trinkaus & Burkhardt AG uses a value-at-risk approach for calculating market risk. On the basis of an assumed holding period of ten days and a confidence interval of 99%, value-at-risk is as follows:

in € million	31.12.2007	31.12.2006
Interest-rate transactions	9.2	5.2
Foreign exchange transactions	1.0	0.3
Equity/index transactions	3.6	4.7
Total market risk potential	**10.2**	**7.6**

Notes on the Income Statement

Breakdown of income by geographic markets

The total of interest income, current income, income from profit pooling and profit transfer arrangements, fee income and other operating income stands at €1,182.5 million (€830.5 million). All income was generated in Germany. For this purpose, income is allocated to a geographic market on the assumption that it was generated at the registered office of the branch in question. Income from profit pooling and transfer arrangements includes an amount of €13.7 million (€18.5 million) generated by affiliated companies in Luxembourg.

Management and intermediary services provided for third parties

The management and intermediary services provided for third parties by HSBC Trinkaus & Burkhardt AG are for the most part confined to asset and portfolio management as well as corporate finance services.

Auditor fees

Auditor fees came to €627.1 thousand. A sum of €217.3 thousand was spent on auditing and valuation activities, €28.8 thousand on tax consulting and €21.7 thousand on other services.

Other operating income

Other operating income of €17.7 million (€12.1 million) primarily comprises the proceeds of €8.4 million from costs recharged to Group companies and income of €2.6 million from the subletting of office space.

This item also includes off-period income of €5.7 million from the reversal of provisions no longer required and off-period income of €0.6 million from the sale of items of property, plant and equipment.

Other operating expenses

Other operating expenses of €6.3 million (€6.6 million) comprise €4.2 million for provisions for ex gratia services and €2.0 million for compensation in settlement of claims in connection with the Bank’s securities service business.

Other disclosures

Staff

Annual average	31.12.2007	31.12.2006
Employees subject to pay-scale agreements	621	567
Employees not subject to pay-scale agreements	687	639
Trainees	34	33
Total	**1,342**	**1,239**
Breakdown by gender:		
Female	561	521
Male	781	718

Liability under letters of comfort

HSBC Trinkaus & Burkhardt AG ensures that HSBC Trinkaus & Burkhardt (International) SA, Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Investments Deutschland GmbH, Düsseldorf, and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf, are able to settle their contractual obligations.

In addition, HSBC Trinkaus & Burkhardt AG regularly indemnifies the current Managing Partners in the fully consolidated limited partnerships and the Trinkaus real estate fund companies for all third-party claims asserted against them on account of their legal status or activity as general partner in the partnership in question, provided that such Managing Partners are natural persons.

Executive bodies of HSBC Trinkaus & Burkhardt AG

The members of the Management Board and of the Supervisory Board are stated in the section “Executive Bodies”. The offices held by these persons in other supervisory boards are listed in the section “Offices held by Members of the Management Board, Supervisory Board and Staff”.

Advances and loans to members of the executive bodies

As of the balance sheet date, no advances or loans had been granted to any members of the Management Board or the Supervisory Board. As in the previous year, there were no contingencies towards third parties in favour of members of the executive bodies.

Remuneration of the Executive Bodies of HSBC Trinkaus & Burkhardt AG

The basic elements of the remuneration system are described in the management report. The following list sets out the total remuneration paid to the members of the Management Board for 2007 in accordance with the proposal contained in DRS 17. In accordance with the resolution passed at the Annual General Meeting on 5 June 2007, the disclosures required by Section 285 (1) No. 9a Sentence 5-9 of the German Commercial Code have been omitted.

in € thousand	2007
Fixed component	2,112.5
Variable component	8,466.8
Share-based compensation	1,000.0
Other benefits	96.6
Total	11,669.7

As in 2006, the performance-tied component was paid partially in cash and partially through an award of shares in HSBC Holdings plc. The cash component is included in the table. The share-based component is being awarded in three equal instalments from 2009 to 2011 and is subject to the condition precedent of continued service for the Bank.

In connection with the change in the Bank's legal status in 2006, the Managing Partners were awarded shares in HSBC Holdings plc to a total amount of €3.0 million as an incentive to remain in the AG's Management Board. These shares are being awarded in three equal instalments from 2006 to 2008 subject to the condition precedent of continued service for the Bank.

In the year under review, payments totalling €193,203.88 were made to three members of the Supervisory Board in consideration of advisory services provided.

Subject to acceptance of the profit appropriation proposal at the Annual General Meeting on 17 June 2008, the remuneration payable to the Supervisory Board will equal €1,180,463.69.

Pension obligations towards the employee representatives as well as the former Managing Partners of the Bank are subject to the general rules for employees and former Managing Partners.

Pension benefits of €4,485,910.00 were paid to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependants. Provisions of €37,256,780.00 have been set aside for former partners and their surviving dependants.

The members of the Board of Directors received remuneration of €323,100.00.

Corporate Governance Code

The Bank's Management Board and Supervisory Board have signed the declaration of conformance with the recommendations of the Government Commission on the German Corporate Governance Code and made it permanently available to the shareholders: pursuant to Section 161 of the German Stock Corporations Act.

Profit appropriation proposal

in €	2007	2006
The income statement carries distributable profit of (in €)	**78,800,000.00**	**111,800,000.00**
The Management Board proposes the following appropriation:		
Payment of a dividend of €2.50 per share on the fully dividend-entitled share capital of €70,000,000.00		
That is equivalent to a total divided of	65,250,000.00	65,250,000.00
Amount to be retained	13,000,000.00	5,500,000.00
Amount to be carried forward	550,000.00	41,050,000.00
	78,800,000.00	**111,800,000.00**

Düsseldorf, 6 February 2008

The Management Board

Andreas Schmitz Paul Hagen

Dr Olaf Huth Carola Gräfin v. Schmettow

Executive Bodies

Management Board

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

Executive Committee

Florian Fautz
Trevor Roland Gander
Manfred Krause

Supervisory Board

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

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

Stephen Green, London,
Deputy Chairman,
Group Chief Executive,
HSBC Holdings plc
(up to 5 June 2007)

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

Deniz Erkman*, Krefeld,
Bank employee

Charles-Henri Filippi, Paris,
Chairman and Chief Executive Officer
HSBC France SA
(up to 14 August 2007)

Dr Hans Michael Gaul, Düsseldorf,
Former member of the
Management Board of E.ON AG
(from 26 November 2007)

Friedrich-Karl Goßmann*, Essen,
Bank employee

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

Birgit Hasenbeck*, Düsseldorf,
Bank employee

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

David H. Hodgkinson, London,
Group Chief Operating Officer,
HSBC Holdings plc
(from 5 June 2007)

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

Oliver Honée*, Essen,
Bank employee

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

Dr jur. Otto Graf Lambsdorff, Bonn,
Lawyer

Professor Dr Ulrich Lehner, Düsseldorf,
Chairman of the Managing Committee,
Henkel KGaA

Jörn Wölken*, Lohmar,
Bank employee

* Employees' representatives

Offices held by Members of the Management Board, Supervisory Board and Staff

Members of the Management Board

The members of the Management Board of HSBC Trinkaus & Burkhardt AG are represented on the following
a) statutory supervisory boards or
b) comparable supervisory 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 v. Schmettow	
	a) DBV Winterthur Lebensversicherung, Wiesbaden
	b) HSBC Trinkaus & Burkhardt (International) SA, Luxembourg [1]
	HSBC Investments Deutschland GmbH, Düsseldorf (Chairwoman) [1]
	HSBC Trinkaus Investment Managers SA, Luxembourg (Chairwoman) [1]
	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chairwoman) [1]
	Member of the Board of the following company:
	HSBC Investments (France) SA, Paris [2]

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

Employees

The following employees of the AG are represented on the following
a) statutory supervisory boards or
b) comparable supervisory bodies:

Manfred Krause	
	a) none
	b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
	HSBC Bank Polska SA, Warsaw [2]

Ulrich W. Schwittay	
	a) none
	b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1]

Gerd Götz	
	a) SINO AG, Düsseldorf
	tick-TS AG, Düsseldorf
	Kerdos Investment AG m.v.K., Düsseldorf
	b) none

Jürgen Werner	
	a) none
	b) daab GmbH, Cologne

Dr Manfred von Öttingen	
	a) none
	b) HSBC Investments Deutschland GmbH, Düsseldorf [1]

Members of the Supervisory Board

Members of our Supervisory Board hold further offices in the following
a) statutory supervisory boards or
b) comparable supervisory bodies:

Dr Sieghardt Rometsch	
	a) Lanxess AG, Leverkusen
	b) Düsseldorfer Universitätsklinikum, Düsseldorf
	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 Hongkong & Shanghai Banking Corporation Limited, Hong Kong SAR [2]

Dr h.c. Ludwig Georg Braun	
	a) Stihl AG, Waiblingen
	Stihl Holding AG & Co. KG, Waiblingen
	b) Aesculap AG & Co. KG, Tuttlingen
	Aesculap Management AG, Tuttlingen
	B. Braun Holding AG, Lucerne [3]
	B. Braun Medical AG, Lucerne [3]
	B. Braun Medical SA, Barcelona [3]
	B. Braun Medical International S.L., Barcelona [3]
	B. Braun Surgical SA, Barcelona [3]
	B. Braun Milano S.p.A., Milan [3]
	Carl-Zeiss-Stiftung. Heidenheim/Jena
	IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman)
	Frankfurter Allgemeine Zeitung GmbH, Frankfurt am Main
	Landesbank Hessen-Thüringen Girozentrale, Franfurt 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]

Dr Hans Michael Gaul	
	a) Allianz Versicherungs-AG, Munich
	DKV Deutsche Krankenversicherung AG, Cologne
	IVG Immobilien AG, Bonn
	Evonik Industries AG, Essen
	VNG–Verbundnetz Gas AG, Leipzig
	Volkswagen AG, Wolfsburg
	b) none

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) [1]
	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)
	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf (Chairman)
	b) BVV Versorgungskasse des Bankgewerbes e.V., Berlin
	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
	BVV Pensionsfonds, Berlin

Dr Siegfried Jaschinski	
	a) LBBW Immobilien GmbH, Stuttgart
	Heidelberger Druckmaschinen AG, Heidelberg
	KfW Kreditanstalt für Wiederaufbau, Frankfurt
	b) LRP Landesbank Rheinland-Pfalz, Mainz
	DekaBank Deutsche Girozentrale, Frankfurt am Main
	Vereinigung der Baden-Württembergischen Wertpapier Börse e.V., Stuttgart

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
	Dr. Ing. h.c. F. Porsche AG, Stuttgart
	Dr. Ing. h.c. F. Porsche S.E., Stuttgart
	b) Novartis AG, Basel

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

Shareholdings

HSBC Trinkaus & Burkhardt AG holds direct or indirect stakes of at least 20% in each of the following companies, most of which are fully consolidated:

Company	Location	Percentage of capital held in the company	Shareholders' equity of the company[1] (€ thousand)	2007 earnings (€ thousand)
Banks and companies similar to banks				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	41,807[2]
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	81,772	17,444
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	436[3]	2,848
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	18,509	3,009
International Transaction Services GmbH [6]	Düsseldorf	51.0	19,771	4,771
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	-94[2]
HSBC Investments Deutschland GmbH	Düsseldorf	100.0	5,001	15,351[2]
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,402	949
Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	-7[2]
Specially commissioned companies				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	-6,227[2]
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	-2,137
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	32	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	61	5
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	62	5
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	24	-1
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	24	-1

Company	Location	Percentage of capital held in the company	Shareholders' equity of the company[1] (€ thousand)	2007 earnings (€ thousand)
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,557[2]
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,165	2,094
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	9[2]
Trinkaus Canada 1 GP Ltd.[7]	Toronto	100.0	3[4]	1[4]
Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG	Düsseldorf	100.0	60[5]	0[5]
Grundstücksgesellschaften				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	11,957	256
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,872	294
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	767	280
Other companies				
HSBC Bond Portfolio GmbH[8]	Frankfurt am Main	100.0	54	4
HSBC Trinkaus Consult GmbH[7]	Düsseldorf	100.0	6,037	1
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	29	3
SINO AG [6, 8]	Düsseldorf	26.6	5,580	2,992

[1] Including unappropriated profit/loss after distribution of profit
[2] Profit transfer agreement
[3] Exchange rate EUR/USD = 1.4714
[4] Exchange rate: EUR/CAD = 1.4435
[5] Exchange rate: EUR/AUD = 1.6760
[6] Consolidated at equity
[7] Not consolidated due to insignificant size
[8] Shareholdings were increased from 15.1% to 26.6% in the year under report.

Changes in Fixed Assets

Property, plant and equipment

	Cost	Additions	Disposals	Book transfers	Cost
€ thousand	1.1.2007				31.12.2007
Property-like rights	300.4	0.0	0.0	0.0	300.4
Property, plant and equipment	37,683.7	8,220.0	3,963.2	0.0	41,940.7
Standard software	10,472.1	0.0	0.0	0.0	10,472.1
Intangible assets	9,973.1	2,148.8	0.0	0.0	12,121.9
Total	**58,429.3**	**10,369.0**	**3,963.2**	**0.0**	**64,835.1**

	Accumulated depreciation	Additions	Disposals	Book transfers	Accumulated depreciation	Residual carrying amount	Residual carrying amount
€ thousand	1.1.2007				31.12.2007	31.12.2007	31.12.2006
Property-like rights	80.4	3.7	0.0	0.0	84.1	216.3	220.0
Property, plant and equipment	21,646.4	5,903.6	3,255.3	0.0	24,294.7	17,646.0	16,037.3
Standard software	10,343.4	83.3	0.0	0.0	10,426.7	45.4	128.7
Intangible assets	3,998.5	2,230.3	0.0	0.0	6,228.8	5,893.1	5,974.6
Total	**36,068.7**	**8,220.9**	**3,255.3**	**0.0**	**41,034.3**	**23,800.8**	**22,360.6**

Financial assets

	Cost	Additions	Disposals	Book transfers	Cost
€ thousand	1.1.2007				31.12.2007
Associates	6,036.9	9,457.2	0.0	0.0	15,494.1
Shares in affiliated companies	161,484.0	5,111.6	0.0	0.0	166,595.6
Total	**167,520.9**	**14,568.8**	**0.0**	**0.0**	**182,089.7**

	Accumulated depreciation	Additions	Disposals	Book transfers	Accumulated depreciation	Residual carrying amount	Residual carrying amount
€ thousand	1.1.2007				31.12.2007	31.12.2007	31.12.2006
Associates	0.0	0.0	0.0	0.0	0.0	15,494.1	6,036.9
Shares in affiliated companies	273.6	0.0	0.0	0.0	273.6	166,322.0	161,210.4
Total	**273.6**	**0.0**	**0.0**	**0.0**	**273.6**	**181,816.1**	**167,247.3**

Auditors’ Report

We audited the annual financial statements–consisting of the balance sheet, income statement and notes–including the accounting and the management report of HSBC Trinkaus & Burkhardt AG, Düsseldorf the fiscal year from 1 January to December 31, 2007. The Management Board of the Bank is responsible for compiling the accounts, the financial statements and the management report pursuant to German commercial law. Our task is to provide an assessment, on the basis of the audit we have carried out, of the annual financial statements including the accounting and the management report.

We conducted our audit in accordance with § 317 of the German Commercial Code, taking account of the generally accepted auditing principles prevailing in Germany, as laid down by the Institut der Wirtschaftsprüfer in Deutschland e. V. (IDW, auditors’ association). These provisions stipulate that the audit must be organized and carried out in such a manner that it is possible to assess with adequate certainty whether the Bank’s accounts and annual financial statements are free of any faults materially affecting the view of its net worth, financial position and earnings situation as conveyed by the financial statements and the management report in the light of generally accepted accounting principles. In organizing the audit process, knowledge of the Bank’s field of activities and its business and legal environment, as well as expectations of possible errors, were taken into account. Within the context of the audit, the effectiveness of the internal control system and the evidence supporting disclosures in the books and records as well as the annual financial statements are examined primarily on a random-sample basis. The audit includes an assessment of the accounting principles applied as well as the material reports of the Management Board and the overall format of the financial statements and the management report. We believe that our audit provides an adequately secure basis for our assessment.

Our audit did not give rise to any objections.

On the basis of the knowledge gained in the course of the audit, in our assessment the annual financial statements presented pursuant to generally accepted accounting principles–conform to statutory requirements and give a true and fair view of the Bank’s asset, financial and earnings situation. Overall, the management report accurately reflects the Bank’s situation as well as its future opportunities and the risks to which it will be exposed.

Düsseldorf, 13 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Signed by Becker
Auditor

Signed by Kügler
Auditor

ANNEX B

Annual Report 2007 (consolidated financial statements)

The Annual Report 2007 (consolidated financial statements) are reproduced on the following pages and separately paginated (106 pages, from page B-2 through page B-107).

Annual Report 2007
HSBC Trinkaus & Burkhardt

Date of issue: April 2008

HSBC Trinkaus & Burkhardt AG Königsallee 21/23 40212 Düsseldorf Germany Phone +49 (0) 211 9100
Fax +49 (0) 211 910 616
info@hsbctrinkaus.de www.hsbctrinkaus.de

Group Management Report
Structure and Management

The Group

The HSBC Trinkaus & Burkhardt Group comprises 16 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG		
HSBC Trinkaus & Burkhardt (International) SA Luxembourg	HSBC Trinkaus Real Estate 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 Beteiligungen und Finanzierungen mbH Düsseldorf	Dr. Helfer Verwaltungsgebäude Luxembourg 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	DPT Deutscher Pension Trust GmbH Düsseldorf	

* accounted for at equity
** renamed, previously HSBC Trinkaus & Burkhardt Immobilien GmbH

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Eight 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.

Constitution of the Company

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

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

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

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in Section 119 German Stock Corporation Act (AktG). Please see Note 39 in respect of the Management Board's current authorisation to issue shares.

In accordance with the resolution passed by the Annual General Meeting on 5 June 2007, the Management Board has the right to buy and sell its own shares for the purpose of securities trading at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or if this cannot be determined on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10%. The number of shares bought for this purpose may not exceed 5% of the company's share capital at the end of each day. This authorisation is valid until 30 November 2008.

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

Basic Features of the Compensation System for the Executive Bodies

The Supervisory Board has delegated its responsibility for determining the compensation of the Management Board to the personnel committee of the Supervisory Board. The members of the personnel committee of the Supervisory Board in the 2007 financial year were Dr Sieghardt Rometsch (Chairman), Stephen Green (up to 5 June 2007), Harold Hörauf (from 12 September 2007) and Stuart Gulliver. The personnel committee met four times in the 2007 financial year.

In accordance with the Articles of Association, the compensation of the Management Board includes fixed amounts and performance-related components as well as individually guaranteed pension payments. The fixed amounts are paid in 12 equal monthly instalments and examined annually by the personnel committee. There is no obligation to adjust the fixed compensation. The performance-related components are defined by the personnel committee of the Supervisory Board and can be paid in cash, by way of an allocation of shares in HSBC Holdings plc or as a combination of both. The cash component amounts to at least 50% of the variable compensation. The share-based compensation will be paid out in three equal instalments over the next three financial years, in each case after the announcement of the net profit for the year of the HSBC Group. The payout is subject to continued service for 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 extent and composition of the payments made to the members of the Management Board during the 2007 financial year can be found in Note 65 "Business Relationships with Companies and Persons Defined as Related Parties".

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

The compensation of members of the Supervisory Board in the 2007 financial year is reported under Note 65 of our consolidated accounts "Business Relationships with Companies and Persons Defined as Related Parties".

The Business Divisions

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

Management Board

Central Functions A

Andreas Schmitz
Management Board (Chairman)
HSBC Liaison
Company Secretariat
Compliance/Money Laundering
Corporate Communications
Audit
Data Protection

Central Functions B

Paul Hagen
Member of the Management Board
Human Resources
Accounting
Controlling
Market Risk Control

Division I

Dr. Olaf Huth
Member of the Management Board
Private Banking

Division II

Andreas Schmitz
Member of the Management Board
Corporate Banking
International Business
Investment Banking

Florian Fautz
Member of the Executive Committee
Investment Banking

Manfred Krause
Member of the Executive Committee
Corporate Banking
International Business

Division III

Carola Gräfin v. Schmettow
Member of the Management Board
Institutional Clients
Asset Management

Division IV

Carola Gräfin v. Schmettow
Member of the Management Board
Global Markets

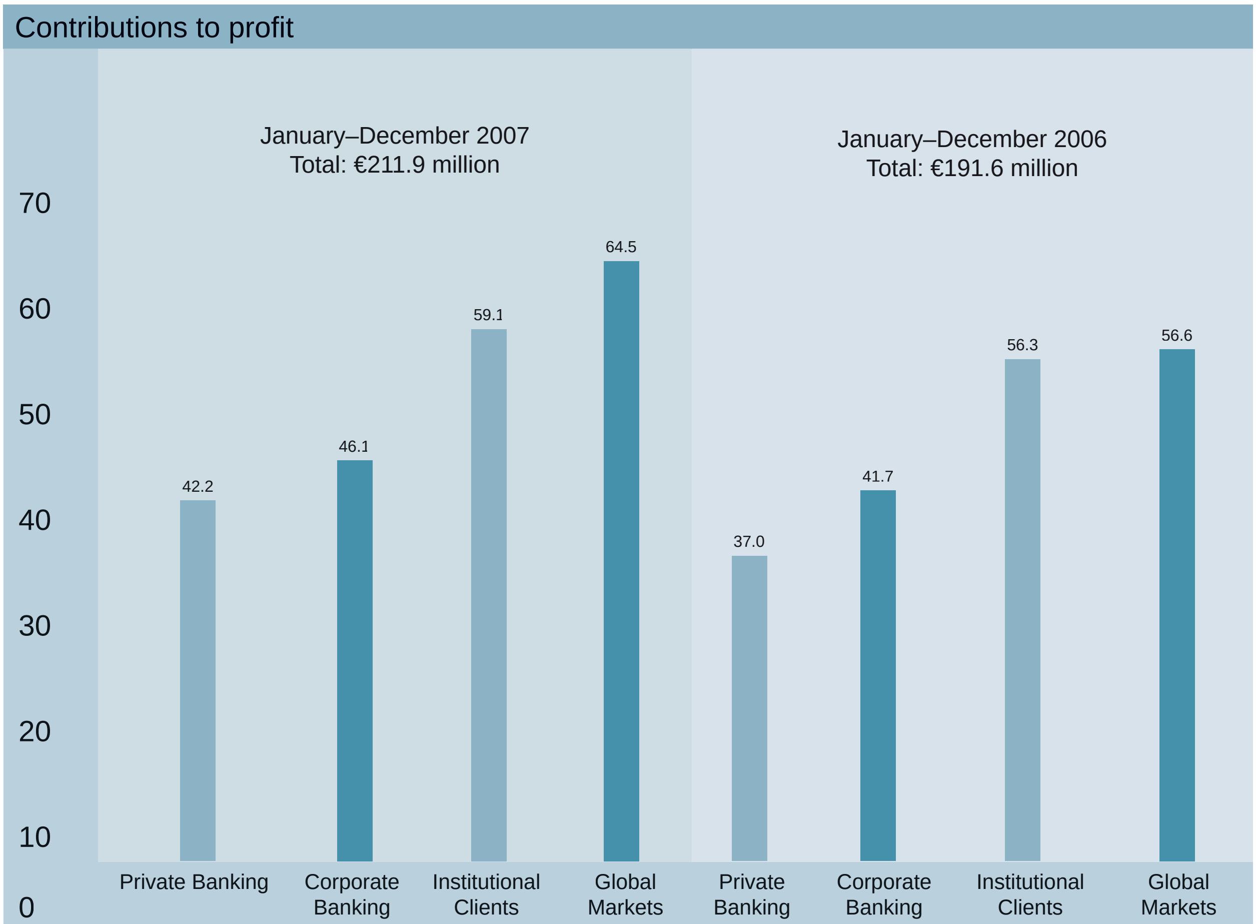
Division V

Paul Hagen
Member of the Management Board
Operations
Business Process Development
Information Technology
Credit

Trevor Gander
Member of the Executive Committee
Credit
Operational Risk

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

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



After deduction of the €5.9 million net costs incurred by head office functions during 2007, as against €9.1 million for 2006, the 2007 operating profit was €206.0 million (2006: €182.5 million). The mean contributions to profits over the last five years reveal a very balanced picture:

5-year average profit contributions

Private Banking 20.80%

Corporate Banking 24.77%

Institutional Clients 28.44%

Global Markets 25.99%

Strategic Direction

The German banking sector was characterised by an increase in the earnings power of the market participants from 2004 to 2006, although increases in trading profits and a reduction in value adjustments were more responsible for this than real improvements in the operative client business. However, the signs have turned as a result of the subprime crisis, the aftermath of which has hit in particular institutions operating without a viable business model.

A possible slowdown in economic activity as a result of the American economy losing momentum, perhaps even going into recession, could mean an increase in loan impairment provisioning requirements again. This will affect international market participants as well, though, whose business policy has been focused so far largely on structured financial solutions such as leveraged finance or structured products. These institutions will have to find their bearings again on the German market.

However, it appears to be too soon to deduce from this that we have seen the start of the long-awaited consolidation process in the German banking market. In the public sector in particular, banks are still tending to put off making structural changes and avoiding necessary corrections by obtaining fresh government financing or additional state guarantees.

In the current situation, which may well get even worse for some of our competitors, HSBC Trinkaus & Burkhardt's virtues stand out all the more: consistent strategy and personnel together with proven relationship management geared exclusively to the client.

We will continue to offer our clients 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. It is essential that we make this unique combination in the German banking landscape even more visible for both our existing and future clients in the more difficult years which lie ahead for us and for the German banking market.

We offer our clients not only the full range of traditional banking services, but also focus on sophisticated financial services as solutions to complex problems, on both the 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 high net worth private clients, corporate clients and institutional clients and we aim to become a core banking partner 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 our clients and for other financial institutions. We offer highly qualified services at competitive prices via our subsidiaries International Transaction Services GmbH (ITS) for securities settlement and Internationale Kapitalanlagegesellschaft mbH (INKA) for fund administration, each of which has significant market shares. Added to this is the Bank's Global Custody offer.
- We 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.

The success of this strategy depends on whether we will manage to satisfy the following conditions in future as well:
- We must systematically open up 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 and advanced training measures on the international level.
- We must use a precise management information system to record data on the performance of our employees as individuals and as team members, so that they receive fair compensation which is in line with the market.

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

The 2007 Financial Year

The economic environment

The global economy expanded for the fifth year in succession in 2007, benefiting in particular from strong growth in Asia. In this environment the German economy was easily able to digest the increase in VAT at the beginning of 2007 as dampened consumer spending was cushioned by an investment and export boom. Germany went on to post solid growth of 2.6%. As a result of this strong growth, the process of recovery on the German labour market continued with the seasonally adjusted unemployment rate falling to 8.1%, the lowest level since the end of 1992. The growth Germany recorded in 2007 put it on the level of the European average enabling it to leave the USA behind as regards economic growth. 2007 was also characterised by a strong increase in inflation: with energy and food prices rising, inflation rose temporarily to over 3% at the end of the year.

In the first half of 2007 the ECB raised interest rates twice by 25 bp in each case from 3.5% to 4.0%. While the US central bank eased monetary policy several times at the end of the year as a result of the crisis on the international capital markets, the ECB left interest rates unchanged in the second half of the year. In concerted action with the US central bank, the Bank of England and the Swiss central bank, the ECB made additional liquidity available in order to ease the pressure on the money markets.

While the broad European and US stock market indices closed 2007 with meagre gains, the DAX30 was up by a good 22% and reached a new record high of 8,152 points in July. Capital market activity in the Eurozone was characterised by an increase in yields in the first half of the year, with yields on 10-year government bonds peaking at 4.7%. This trend was reversed in the second half of the year on account of the US central bank changing direction and the long-term yield fell back to 4.3% by the end of the year. In this environment the euro was able to advance across the board and notched up significant gains, in particular versus the US dollar. The single European currency rose from $1.32 at the beginning of 2007 in the direction of $1.46 at the end of the year.

Profitability

Despite the financial market crisis, we clearly reached our goals in the 2007 financial year. We increased operating profit–the most important financial performance indicator–by 12.9% to a new record level of €206.0 million. We were equally successful in further increasing the number of our client relationships. Our results were improved once again in all business divisions. As was already the case the previous year, we gave a particularly good performance in the first half of the year. Due to the growing uncertainty among our customers in reaction to the subprime crisis, our earnings growth slowed down slightly in the second half of the year. However, we are more than satisfied with our performance in the second half of 2007 as well with an increase in operating profit of 10.1% compared to the second half of 2006. Overall, the subprime crisis has put no notable direct burden on our Bank as we have consciously avoided investments in these products. However, we cannot rule out indirect repercussions as a result of changes in the markets and in client demand.

By clearly focusing our strategic orientation on selected client groups we continued along a profitable growth path in 2007, despite notable investments in employees and systems.

The success of the 2007 financial year is based essentially on three main factors:
- Consistent implementation of our strategy
- Moderate willingness to assume risk combined with sophisticated risk management
- Intensive cooperation with HSBC

As a result of the implementation of our strategy, 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.

Although taking on risks is one of the core functions of a bank, these risks have to be properly assessed and monitored and actively controlled. Apart from our trading activities, we enter into counterparty risk only in connection with our own client business. We pay strict attention to the profitability of each client relationship and have always refrained from taking on synthetic credit risks.

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. This partnership-based cooperation extends to very many fields of business with differing intensity, in each case corresponding to our clients’ needs.

The individual items of the income statement developed as follows:

Net interest income was up 24.2% to €110.0 million. This favourable trend is based essentially on our success in the client business, but interest income from financial assets was also up again by 6.2% versus the high prior-year level. By acquiring new clients as well as intensifying existing client relationships, we were able to significantly increase average volumes on both the lending and deposits side. Thanks to our extremely good liquidity situation we expanded the interest margin in the deposit business leading to a significant increase in net interest income in this segment. However, there was only a slight improvement in earnings in the lending business as the stiff competition for our target clients led to slightly lower credit margins. Despite the continuation of the financial market crisis, no improvement in the margins in the client lending business can be observed so far. We have been able to invest our free cash flow far more profitably on the interbank market, including the HSBC Group, as the credit and liquidity spreads have widened substantially in the wake of the financial market crisis.

The good quality of our credit portfolio again led to the reversal of loan impairment provisions on balance. Overall, net interest income after loan impairment provisions was up 21.0% to €113.5 million.

There was a 12.9% increase in net fee income to €318.1 million. Fee income was up 19.3% to €620.7 million, while fee expenses increased by 26.8% to €302.6 million. The more than proportionate increase in fee expenses is, above all, the result of the strong expansion in transaction volume which led to a sharp increase in third-party fees and securities settlement costs which could not be passed on in full. It is to be pointed out that fees in the securities business increased significantly by €21.6 million or 11.9% to €203.7 million despite the uncertainties on the financial markets since the middle of the year. On the one hand, we benefited from higher transaction volumes reflecting not least the steady growth in the number of our clients and the intensification of existing client relationships. On the other, this success can also be attributed to the trust which our clients place in our consulting expertise in particular in this difficult market situation. We managed to step up our cooperation with HSBC substantially in the year under report in particular in the securities business. For example, we took on the role of custodian for Germany in the HSBC Group last year. There was also a strong improvement in our issuing and structuring business. Net income here was up once again by €7.5 million or 61.0% to €19.8 million. This success is based on the successful placement of a structured participation rights issue (H.E.A.T III) in the first quarter. We were able to more than double earnings in the corporate finance business, thanks to the successful structuring and placement of capital increases. As sole lead manager in the capital increases carried out by ersol Solar Energy AG and Nordex AG, the Bank provided evidence of its capital market and sector expertise in the renewable energy segment. This was set against a reduction in earnings in the real estate business. HSBC Trinkaus & Burkhardt placed no real estate funds in the year under report, due primarily to the enormous purchase price increases with correspondingly lower returns for properties in connection with the internationalisation of the real estate markets. A property was acquired in Brisbane, Australia just before the end of the year which is to be marketed as a fund.

Down by 3.8% to €100.1 million, net trading income fell only just short of the previous year's high. We again enjoyed particular success in marketing retail products under our HSBC Trinkaus Retail Derivatives brand (www.hsbc-zertifikate.de). With the issue of more than 20,000 certificates and warrants we reached a new high in 2007. This guarantees that we will always be able to present offers which are perfect for the respective market environment in fast-moving times as well. It is to be pointed out here that in particular we were able to quote tradable prices for all of our issues at all times, even given the major market turmoil. Furthermore, we benefited from the favourable sentiment on the European bond and equity markets in the first half of the year as well as from the major volatility on these markets in the second half. The apportionment of net trading income to the individual types of product shows that we still focus on the equities and equities/index derivatives business, while in interest rate products and derivatives trading we rely very strongly on the global trading books of the HSBC Group. At €79.0 million net trading income from equities and equity derivatives fell only just short of the good prior-year figure of €80.1 million. There was also a slight decline in our interest rate products trading activities to €10.9 million. Thanks to its good liquidity position the Bank was able to benefit from the wider credit and liquidity spreads, but investor uncertainty as a result of the subprime crisis led to declining net trading income from interest rate products in the second half of the year. In our foreign exchange trading activities we were almost able to repeat our prior-year performance in the year under report.

Overall, administrative expenses increased by 11.7% to €333.4 million. The growth in staff expenses of €13.6 million or 7.2% to €203.3 million is the result on the one hand of the further increase in our staff as we continue along our strategic growth path. On the other, we honoured the record result in 2007, thanks to the profitable implementation of our growth course, with higher performance-related remuneration for our staff. The decline in expenses for post-employment benefits reflects the increase in income from plan assets in our CTA. Other administrative expenses increased by €20.2 million or 20.5% to €118.8 million. The increase is essentially the result of higher fees for IT advisory services for the further modernisation of our IT infrastructure as well as statutory provisions. With MiFID having been implemented on time and the preparations for converting to the Basel II provisions having been completed successfully in the year under report–along with the SEPA project–the preparations for the implementation of the withholding tax got under way towards the end of the year. These projects involve expenses going into millions. The further modernisation of the IT infrastructure is in line with our strategic growth plan. Alongside the fees for advisory services, additional group expenses as a result of our stronger cooperation with the HSBC Group also led to an increase in administrative expenses.

Net income from financial assets declined, but is clearly positive as the Bank did not have to digest any notable burdens resulting from the subprime crisis. We have always avoided taking on synthetic credit risks, and entered into minor ABS positions only in order to support selected client transactions.

This led to a slightly smaller increase in profit before taxes than operating profit, namely of 9.7% to €207.8 million.

The substantial reduction in future domestic tax rates as a result of the corporate tax reform which came into force on 1 January 2008 is to be counterfinanced by widening the assessment basis. The lower tax rates led in particular to lower deferred tax at the Bank as a result of which overall tax expenditure was down by 15.4% or €11.5 million in 2007. Net profit for the year therefore rose more than proportionately by 26.0% to €144.4 million.

The asset situation

In 2007 the balance sheet total again grew substantially by 12.8% to €21.1 billion. On the assets side, there was a significant rise compared to the previous year, in particular in loans and advances to clients of 34.7% to €4.3 billion as well as in trading assets of 15.4% to €10.4 billion. On the other hand, there was a 23.8% reduction in balances with the Deutsche Bundesbank to €0.3 billion, which was balance-sheet-related, as well as in loans and advances to banks of 7.3% to €4.1 billion. On the liabilities side, compared to the previous year deposits by banks were up 16.0% to €10.3 billion and customer accounts by 69.3% to €2.5 billion, while trading liabilities were down by 2.9% 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 decline in loans and advances to banks and the increase in trading assets is due above all to overnight money being exchanged for short-term certificates of deposit in order to make better use of the excellent liquidity position and also to balance-sheet-date-related effects. One reason for the excellent liquidity situation is very high levels of client deposits which reflect the significant inflows of funds in the business with high net worth 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 mainly balance-sheet-related.

While our trading portfolios of equities and other variable-income securities declined significantly, there was a substantial increase in fixed-income securities in the trading portfolio, in particular certificates of deposit. The market values of derivatives declined slightly in both trading assets and liabilities owing to the trend in interest rates, although we further expanded the derivatives business in cooperation with HSBC.

The financial position

As of the balance sheet date, the Group's equity ratio and Tier 1 capital ratio according to the German Banking Act (Kreditwesengesetz–KWG) was 10.7% and 6.4%, 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 2007, while regulatory capital in the Group remained almost unchanged at €1.0 billion. The increase in risks assets is based primarily on the growth in loans and advances to clients. For the purpose of calculating regulatory capital, profit retention and the derecognition of participatory capital owing to it falling below the two-year residual term limit cancelled each other out.

We made no substantial adjustments to financial assets in 2007. At €76.2 million the revaluation reserve for financial instruments was down slightly compared to €88.6 million the previous year, due above all to the higher level of interest rates.

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 1.58 for the end-of-month positions.

Outlook for 2008

There were growing signs over the course of 2007 that the global upswing will lose momentum in 2008. The slowdown which is emerging was prompted by the real estate boom in the US coming to an end and the resulting global banking and financial market crisis, which is also likely to dominate much of 2008. In this environment, there is a threat of a notable slowdown in growth in the USA which the US central bank is trying to counter by sharply reducing interest rates.

The German economy will not be able to escape this downtrend, either. Not only are its most important trading partners experiencing weaker growth, German companies and consumers are also likely to be hit by the financial market crisis via a restrictive lending policy on the part of the banking system. We are only expecting growth of around 1.5% in Germany and the Eurozone in 2008. The labour market as well as an increase in real wages should have a supportive effect on German growth. The ECB is likely to pay tribute to the worsening growth prospects towards the middle of the year and introduce a cycle of interest rate cuts. By the beginning of 2009 we are expecting a reduction of the repo rate from its current level of 4.0% in at least two steps. A significant increase in yields at the long end of the yield curve need not be anticipated in this environment.

The situation on the German banking market has seldom been so difficult. It has only been possible for several institutions to save themselves from insolvency by seeking external assistance amounting to billions. The capacity of other individual institutions to carry risk has been reduced by wrongly assessing the risk content of positions they entered into. In this challenging environment, we plan to use our clear client focus and strong balance sheet to gain further market shares. We should succeed in this as we are able to concentrate on the business with our clients, and valuable resources are not tied up by internal restructuring measures.

The starting base is very high given the successes achieved in the 2007 financial year in which we clearly met our forecast despite the start of the subprime crisis in the summer. This applies all the more as we have been able to generate clearly double-digit growth rates in our operating profit in each of the past five years and therefore have a record result as a basis of comparison. We believe there will be a substantial reduction in the volume of revenues generated by the banks in Germany in 2008. The question as to whether the targeted market share gains will be sufficient to maintain the revenue base at the prior-year level remains open at present. This is the condition to succeed in balancing out the increase in administrative expenses and maintaining operating profit more or less at the prior-year level.

It is a precondition that there are no further major share price losses on the stock markets so that there is no major slump in transaction volumes compared to the previous year. The credit risk costs, which made a positive contribution to the operating profit on a portfolio basis from 2005 to 2007 as a result of the release of loan impairment provisions for individual large commitments, should be in the single-digit million range. We are not yet expecting any significant deterioration in borrower creditworthiness for the portfolio as a whole, but fear a reduction in credit quality in individual cases.

Administrative expenses will continue to rise. There is accumulated demand on account of significantly higher transaction volumes and the positions which have been planned for this, but not yet filled. We will continue to strengthen our investment banking activities as a strategic project and not allow ourselves to be put off by the current market distortions. As a result of the acquisition of 100% of ITS International Transaction Service GmbH, which provides securities settlement services for HSBC Trinkaus & Burkhardt and other banks, both the fee income and administrative expenses of this company will be entered under the corresponding income statement items and lead to a notable increase in these items as a result of the transition from at-equity to full consolidation; the cost:income ratio will be increased by just less than 2% as a result. We will not be able to escape the significant increase in costs as a result of administrative and regulatory provisions. We regard a cost:income ratio ranging from 65% to 70% in terms of operating profit as adequate for our business model of a universal bank with a wide range of products for our clients. The favourable ratios seen in recent years are a sign of our unusually strong earnings power in these financial years. We would regard an operating profit and profit before taxes at the level of 2007 as a clear success for our Bank, with its deliberately strong capital market and service orientation, also in comparison with other banks.

We are expecting the successful performance seen in all client segments in recent years to continue. 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 solid growth. The performance of important asset categories will presumably require the greater use of structured products in 2008 in order to realise optimum risk-return profiles for the portfolios. Asset diversification will continue to be of major importance. It is also essential that we adjust as best as possible to the new tax provisions. Based on the good performance, the concentration on the professional management of large assets and our broad service offer, we are confident that we can expand our market position and generate an earnings contribution comparable to the previous year. We are open to acquisitions in this client segment.

HSBC Trinkaus & Burkhardt's collaboration with the globally active HSBC Group puts the Bank in a unique position in the Corporate Banking business. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable partner for the German Mittelstand, and has thus been able to acquire new clients. 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. This statement applies not only to the syndicated loan business with internationally operating groups, but also increasingly to the upper Mittelstand segment. The banking crisis has not yet led to the notable widening of credit margins. We fail to understand why other banks offer interest rates which are below the refinancing costs of these institutions on the capital market, in particular for client loans with mid-range and long maturities. This conduct illustrates the distortions which still exist in the German banking system. Following the significant expansion of our credit portfolio in recent years, we will extend our credit volumes only on a selected and earnings-oriented basis overall. The earnings contribution in the corporate banking business can therefore only be increased by our clients using additional banking services. A pure debtor-creditor relationship still does not offer an adequate basis for a lasting business relationship.

Our expectations for this year are also cautious as regards our business with institutional clients. It remains to be seen whether the expected decline in sales of structured credit products can be compensated by other products. 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.
Thanks to our cautious approach to high-risk structures and the transparency of the risk profiles, the trust placed in us by our institutional clients is not questioned. The product development competence of the entire HSBC Group is available for this; we have direct access to its global trading books which also enable large-volume transactions and the assumption of risk, and can thus offer added value.

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 HSBC 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. However, investors already started to partly realise the major price gains from the emerging market funds in the final quarter of 2007, as a result of which placed volumes have declined. In keeping with this the Bank's fee income has also been reduced.

The success of our subsidiary INKA Internationale Kapitalanlagegesellschaft mbH as a highly-qualified service provider for fund administration will continue. A volume of more than €55 billion in fund administration creates economies of scale in the competition. A new fund accounting system will be introduced this year, which ties up major resources, enabling the acquisition of new large mandates to be stepped up.

In addition, we will further improve our performance as a global custodian through integrated cooperation with HSBC Securities Services. The success with acquisitions in 2006 and 2007 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. However, as the slump in prices on the stock markets at the beginning of 2008 has led to a reduction in private investors' risk capital, an increase in volumes and therefore also revenues is questionable, despite active product marketing. We will strengthen the technical platform and make our Internet presence even more attractive for our clients.

As a result of the reorganisation of our trading activities in the wake of the integration into the HSBC Group, the interest rate product and foreign exchange trading books are geared exclusively to supporting our client activities. We benefit here from the liquidity and risk-bearing capacity of HSBC's trading books. 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 trading activities is more dependent on the performance of and turnover on the European stock markets than before. Even given an unexpectedly favourable general setting, it will scarcely be possible to reach the extremely high earnings contribution from trading recorded in 2007.

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. We successfully completed the Basel II project together with the introduction of a new reporting system with effect from 1 January 2008. We already fulfilled the new requirements of the European Markets in Financial Instruments Directive (MiFID) in November. After completing the introductory projects, it is now a question of fulfilling the requirements in day-to-day business. The Bank's already high regulatory costs, to which the requirements of the Sarbanes-Oxley Act (SOX) also contribute, will therefore be increased further. The introduction of SEPA (Single European Payments Area), which was prescribed by national legislation in implementing the EU provisions, can be referred to as an example of the provisions which the banks have to implement at their own expense and which will lead to lower earnings. The public service authorities are not prepared to implement the new standards themselves in the next few years. Apart from system separation in securities settlement an additional project will be the implementation of the new withholding tax in 2008. There will be a major need for the bank systems to adjust in this case as well, as the legislature lacks the political will to introduce clear standard regulations. On the other hand, in addition to the interest withholding tax which has already had to be collected for the tax authorities free of charge to date, the banks will also be required to transfer withholding tax for capital gains without being compensated for the costs involved with effect from 1 January 2009. Overall, despite the cautious management of resources we are expecting an increase in administrative expenses in the high single-digit percentage region for 2008 excluding the effect of the full consolidation of ITS.

Following the further issue of new participatory capital in 2006 and after the planned reinvestment of net profit for 2007, the Bank's capital position is good and will enable the targeted and return-oriented expansion of our business activities. We will not increase our subordinated capital further as long as the distortions from the banking crisis continue. We will also keep a close eye on opportunities to make acquisitions if they offer synergies with the existing lines of business. We plan to generate an unchanged dividend for our shareholders for 2008.

Risk Management

Principles of risk management policy

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

In accordance with these risk principles we are ready to actively enter into market and counterparty risk. 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 avoid reputational and liquidity risk as far as possible and are prepared to accept lower profits as a consequence.

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

Risk management–organisational structure

The following three committees play a central role within the Group's risk management organisation:
- the credit committee for counterparty risk
- the asset and liability management committee for market and liquidity risk
- the operational risks committee for operational risks including legal and reputational risks

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

This organisational structure ensures that risks are promptly identified and that suitable measures are taken in good time–also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks 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. It results primarily from the Bank's strategic orientation. HSBC Trinkaus & Burkhardt is particularly exposed to such risk as there is strong competition for our clients in the market on account of their major significance.

The Bank's strategic orientation reflects the risk arising from the fact that a large proportion of our revenues are dependent on our clients' activities on the equity, bond, foreign exchange and derivatives markets, and also on the capital markets' capacity to absorb new interest rate and equity product issues. The diversification of our business activities, for instance through our active corporate client business dealings and the broadening of our offer for high net worth private clients, can only counteract this risk to a limited extent. Thanks to our stronger collaboration with the HSBC Group, we can counteract this risk in a targeted way via 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 by rationalising and automating our working processes. Information technology is becoming more and more important in this context.

The further modernisation of our IT architecture will demand significant personnel and financial resources in the future as well. These investments will be accompanied by increased expenses for third-party software and write-downs on software and hardware resulting in a further significant increase in the Bank's cost base.

The increasing regulatory control in the German banking system and responsibilities stipulated by the government being passed on to the banks, such as money laundering control and the collection of taxes together with the accompanying examinations, has led to a significant increase in regulatory costs for the Bank about which we are extremely concerned. This trend will lead to a substantial increase in the Bank's fixed costs. The regulatory costs have taken on a dimension which exerts a significant influence on the minimum cost-efficient operating size of the Bank. We are extremely sceptical as to whether the announced reduction of bureaucracy in Germany will also lead to a reduction in the regulatory costs for the Bank.

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

a) Organisation of the credit processes

Counterparty risk may be subdivided into credit 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.

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.

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 Federal Financial Supervisory Authority (BaFin) in December 2005 are being consistently complied with. In accordance with the statutory provisions, the Management Board has duly delegated loan approval authority relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit approval authority.

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

In the light of the reform of the Basel Capital Accord, the Bank has used a 22-stage rating system to classify the credit quality of its corporate and institutional clients (see also section on Basel II) in the lending business since 2005. In order to determine the internal rating, the Bank uses four rating systems which cover the customer groups international corporations, German medium-sized companies, banks and financial service providers. These systems are already being used for risk classification and their details being constantly improved. The internal rating provides the basis for the loan decision supplemented by the expert knowledge of the analysts and any collateral agreements.

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

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

The expected probability of default for each borrower can be derived from the rating. On this basis, the expected loss for the individual loan exposures is estimated taking into account security and other agreements. A loan impairment provision is set up for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of security is estimated over a period of time so that the cash value of these payments can be compared with the book value of the loan exposure. The loan impairment provision fully covers the shortfall calculated in this way.

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

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, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments.

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

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

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

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

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

b) Maximum exposure to credit risk

Above all loans and advances, trading assets, financial assets as well as contingent liabilities and lending commitments can be affected by credit risk. The risk of non-delivery can also arise in the settlement of payments transactions, foreign exchange trading as well as the securities services business. However, we do not go into this in more detail below on account of the extremely short settlement periods.

The following table shows the Bank’s theoretical maximum exposure to credit risk as of the balance sheet date disregarding collateral received and other credit enhancements. It can be quantified best by means of the carrying amount of the financial assets (including OTC derivatives).

Any amount offset in accordance with IAS 32 as well as the impairment losses recognised in accordance with IAS 39 are taken into consideration in the gross carrying amount. Exchange-traded derivatives are not subject to default risk on account of the margin system.

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

HSBC Trinkaus & Burkhardt's maximum credit risk according to this definition breaks down as follows as of the balance sheet date:

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Loans and advances to	**8,389.9**	**33.4**	**7,613.2**	**33.4**
Banks	4,117.0	16.4	4,440.1	19.5
Customers	4,272.9	17.0	3,173.1	13.9
Trading assets	**9,888.0**	**39.3**	**8,464.6**	**37.2**
Bonds and other fixed-income securities	6,241.9	24.9	3,978.9	17.5
Equities and other non fixed-income securities	479.4	1.9	859.0	3.8
Marketable receivables	813.1	3.2	1,136.8	5.0
OTC derivatives	1,311.8	5.2	1,326.4	5.8
Reverse repos/securities lending	1,041.8	4.1	1,163.5	5.1
Financial assets	**1,567.9**	**6.2**	**1,437.6**	**6.3**
Bonds and other fixed-income securities	885.8	3.5	929.6	4.1
Equities	41.5	0.2	49.2	0.2
Investments	383.3	1.5	221.7	1.0
Promissory note loans	157.2	0.6	163.1	0.7
Interests in subsidiaries	100.1	0.4	74.0	0.3
Financial guarantees	**1,617.2**	**6.4**	**1,581.2**	**6.9**
Loan commitments	**3,704.3**	**14.7**	**3,701.1**	**16.2**
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

c) Collateral and other credit enhancements

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

The Bank uses internally developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is recorded in the line system.

Where financial guarantees are provided, the accounts and securities accounts pledged are recorded and valued daily using a program which links the key data of the guarantees to the account and securities account data. Fixed loan-to-value ratios are predetermined for the valuation of financial guarantees. The credit analyst obtains a valuation for securities for which no valuation is available.

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

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

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

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

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

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

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

d) Information on credit quality

Loans and advances as well as financial guarantees and loan commitments

31.12.2007					
in € million	Loans and advances to banks	Loans and advances to customers	Financial guarantees	Loan commit-ments	Total
Neither past due, nor impaired	4,117.0	4,251.2	1,595.3	3,699.8	13,663.3
Past due, but not impaired	0.0	1.2	–	–	1.2
Individually impaired*	0.0	20.5	21.9	4.5	52.8
Total	**4,117.0**	**4,272.9**	**1,617.2**	**3,704.3**	**13,717.3**

31.12.2006					
in € million	Loans and advances to banks	Loans and advances to customers	Financial guarantees	Loan commit-ments	Total
Neither past due, nor impaired	4,440.1	3,133.3	1,554.9	3,698.3	12,826.6
Past due, but not impaired	0.0	1.5	–	–	1.5
Individually impaired*	0.0	38.3	26.3	2.8	67.4
Total	**4,440.1**	**3,173.1**	**1,581.2**	**3,701.1**	**12,895.5**

* including credit risk provisions.

Trading assets and financial assets (exclusively bonds)

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

in € million	31.12.2007			31.12.2006		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	995.9	246.4	1,242.3	797.3	223.0	1,020.3
AA+ to AA-	4,889.6	218.4	5,108.0	2,820.8	198.0	3,018.8
A+ to A-	117.0	133.2	250.2	86.6	193.1	279.7
BBB+ to BBB-	10.0	71.5	81.5	10.2	51.5	61.7
Below BBB-	0.0	28.5	28.5	0.0	15.7	15.7
Unrated	229.4	187.8	417.2	264.0	248.3	512.3
Total	**6,241.9**	**885.8**	**7,127.7**	**3,978.9**	**929.6**	**4,908.5**

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

		31.12.2007		31.12.2006	
		in € million	in %	in € million	in %
OECD	Banks	1,127.1	85.9	1,113.4	84.0
	Financial institutions	45.1	3.4	94.8	7.2
	Other	135.6	10.1	115.8	8.7
Non-OECD	Banks	1.4	0.1	0.9	0.0
	Financial institutions	0.0	0.0	0.0	0.0
	Other	2.6	0.5	1.5	0.1
Total		**1,311.8**	**100.0**	**1,326.4**	**100.0**

e) Information on exposures which are neither past due nor impaired

The quality of the loans and advances (including financial guarantees and loan commitments) which are neither past due nor impaired is determined by means of an internal rating procedure. Allowing for risk-reducing elements, such as collateral, the rating classes are mapped onto seven financial grades. Financial grades 1–5 comprise as a rule exposures which are neither past due nor impaired. The credit quality as of the balance sheet date was as follows:

31.12.2007					
in € million	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commit-ments	**Total**
Rating classes 1-2	4,103.0	1,791.4	805.3	1,671.9	**8,371.6**
Rating classes 3-4	14.0	2,454.7	787.3	2,027.9	**5,283.9**
Rating class 5	0.0	5.1	2.7	0.0	**7.8**
Total	**4,117.0**	**4,251.2**	**1,595.3**	**3,699.8**	**13,663.3**

31.12.2006					
in €m	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commit-ments	**Total**
Rating classes 1-2	4,384.9	1,359.4	784.3	1,647.2	**8,175.8**
Rating classes 3-4	55.2	1,769.8	768.2	2,051.1	**4,644.3**
Rating class 5	0.0	4.1	2.4	0.0	**6.5**
Total	**4,440.1**	**3,133.3**	**1,554.9**	**3,698.3**	**12,826.6**

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

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

The Bank's loans and advances which have not been impaired although past due are the result of the purchase of credit-insured foreign accounts receivable outside the European Union. These loans and advances amounted to €0.8 million in 2007 (2006: €0.4 million). No corresponding impairments were made on account of the possible recourse to the respective credit insurance. The fair value of the collateral stood at €0.7 million in the year under report (2006: €0.4 million).

There are also past due, but not impaired claims resulting from excess interest of €0.4 million (2006: €1.1 million) for which adequate collateral is also available in the form of charges on property. The fair value of this collateral was €0.5 million (2006: €1.4 million).

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

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

	31.12.2007			31.12.2006		
in € million	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	**Total**
Carrying amount before individual impairment provisions						
Credit ratings 1-5	0.0	5.2	5.2	0.0	5.3	**5.3**
Credit rating 6	0.0	11.0	11.0	0.0	26.9	**26.9**
Credit rating 7	0.0	4.3	4.3	0.0	6.1	**6.1**
Total	**0.0**	**20.5**	**20.5**	**0.0**	**38.3**	**38.3**
Individual impairment provisions						
Credit ratings 1-5	0.0	3.1	3.1	0.0	2.8	**2.8**
Credit rating 6	0.0	6.8	6.8	0.0	4.9	**4.9**
Credit rating 7	0.0	2.6	2.6	0.0	4.0	**4.0**
Total	**0.0**	**12.5**	**12.5**	**0.0**	**11.7**	**11.7**
Carrying amount after individual impairment provisions	**0.0**	**8.0**	**8.0**	**0.0**	**26.6**	**26.6**

Within the scope of its loan impairment and other credit risk provisioning HSBC Trinkaus & Burkhardt also sets up provisions for anticipated losses for individual financial guarantees and loan commitments: these amounted to €6.6 million (2006: €10.0 million) in the year under report.

In addition to individual impairment provisions, the Bank also carries out collective impairment provisions. These stood at €3.7 million (2006: €5.1 million) for loans and advances and to €0.9 million (2006: €0.9 million) for financial guarantees and loan commitments.

Credit-related impairments on financial investments came to €7.1 million in the year under report (2006: €9.1 million).

h) Information on collateral held

As regards loans and advances which have been individually impaired, collateral and other credit enhancements in the form of guarantees, transfers of title as security as well as assignments are held, the value of which totalled €4.3 million (2006: €5.4 million) in the year under report.

i) Realisation of collateral held and drawing on other credit enhancements

Collateral held and other credit enhancements amounting to €0.9 million were realised and drawn on, respectively, in the 2007 financial year (2006: €0.0 million).

j) Information on credit risk concentration

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

As of the balance sheet date the Bank's theoretical maximum exposure to credit risks break down as follows:

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Risk concentration by sector				
Banks and financial institutions	12,909.8	51.3	13,376.3	58.6
Companies and self-employed professionals	10,885.3	43.3	7,838.9	34.4
Public sector	736.3	2.9	909.4	4.0
Employed private individuals	635.9	2.5	673.1	3.0
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

	31.12.2007		31.12.2006	
	in € million	in %	in € million	in %
Risk concentration by region				
Domestic	13,987.9	55.6	13,268.7	58.2
Other EU (including Norway and Switzerland)	9,857.7	39.2	8,201.8	36.0
North America	470.7	1.9	537.6	2.4
Asia	435.3	1.7	434.8	1.9
South America	309.3	1.2	274.0	1.2
Rest of Europe	61.7	0.2	43.3	0.2
Africa	39.4	0.2	28.0	0.1
Oceania	5.3	0.0	9.5	0.0
Total	**25,167.3**	**100.0**	**22,797.7**	**100.0**

The breakdown by sector shows that loans and advances are made predominantly to banking organisations and financial institutions.

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

Basel II

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

The Basel II requirements were implemented at HSBC Trinkaus & Burkhardt by a central project group set up to coordinate implementation above all in the fields of credit, accounting and IT. The Bank already introduced a new Basel-II-compliant client rating system in 2005. The examination for certification of the internal rating systems by the German banking supervisory authorities took place in the first quarter of 2007 and there were no serious findings. The examination of the calculation of the capital requirements as well as for the final approval of the rating systems by the German banking supervisory authorities is planned for May 2008.

The Bank is still working closely together with the HSBC Group as regards the application of Basel-II-compliant methods, systems and processes. In doing so it benefits significantly from the international transfer of know-how between the Group's various units.

We focused in 2007 not only on revising the examination results and optimising the rating processes and data quality, but also on implementing standard software for equity capital backing and for generating supervisory reports. All of the necessary processes have been running without any significant problems since 1 January 2008. All of the requirements for the first report according to the new law have been implemented on time.

Operational risk

We define operational risk as the risk of losses caused by fraud, unauthorised activities, errors, negligence, inefficiency or system faults, as well as those caused by external events. Operational risks are inherent in any area of an organisation and embrace a broad spectrum. 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 control of operational risks as well as reputational risks across the board within the Bank. The Chairman of the committee is the Management Board member responsible for risk controlling. The committee represents an important element in the Bank's risk management organisational structure and enables the integrated cross-divisional control of operational risks in the Bank.

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

The operational risks identified within the scope of this self-assessment are weighted according to their loss potential and the likelihood of their occurrence before taking into account any risk reduction measures taken in order to determine the absolute inherent risk. On this basis, risks are then assigned to one of five risk categories, explicitly allowing for the control environment already implemented. If the committee identifies major operational risks which it believes are not being monitored, or inadequately so, it decides upon the measures to be taken. It can require the implementation of appropriate supervision measures, or may stipulate that certain products or business procedures and processes should not be undertaken or should be discontinued.

The risks, including their valuation, measures introduced as well as losses incurred, are formally documented in a system developed by the HSBC Group. The decentralised coordinators for operational risks in the individual business divisions 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 approved and particularly important points discussed in the Management Board meeting. This ensures that all Management 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 of profit, 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.

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

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

The Management Board attaches major importance to establishing a risk culture in the Group whereby risks are not only identified at an early stage, but are also reported directly and openly. The 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 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 therefore reduced.

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

Market risk

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

To measure market risks in our trading book under normal market conditions we have used 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 an historical simulation of risk factors over a period of 500 equally weighted trading days and covers interest rate, equity, foreign exchange and volatility risk (see also Note 4 of the consolidated financial statements for the valuation of the financial instruments included in the model). 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 trading activities. Issuer-specific interest-rate risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits. Commodities risks are limited internally by various limits (including limits for sensitivities and special stress scenarios).

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

in € million	2007			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	9.2	7.2	4.8	10.7
Currency-related transactions	1.0	0.3	0.1	1.4
Equity/index-related transactions	3.6	5.4	3.0	9.7
Total potential market risk in the trading portfolio	**10.2**	**8.9**	**5.4**	**12.1**

in € million	2006			
	31.12.	Average	Minimum	Maximum
Interest-rate-related transactions	5.2	4.8	3.3	6.8
Currency-related transactions	0.3	0.4	0.1	1.0
Equity/index-related transactions	4.7	4.1	2.3	6.4
Total potential market risk in the trading portfolio	**7.6**	**6.4**	**3.4**	**9.1**

The model, with the Federal Financial Supervisory Authority's (BaFin) consent, is also still used to calculate the necessary capital adequacy in relation to HSBC Trinkaus & Burkhardt AG's trading book pursuant to the Solvency Directive. The model-specific add-on factor currently amounts to 3.2. Specific risks as well as commodities risks are covered through the standard approach for regulatory purposes.

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

For 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 2007, 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 to avoid concentration risks and also 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. The disruption in the market for AMS products as a result of the subprime crisis in the USA has highlighted the extent to which fluctuations in the prices of financial instruments can depend on market liquidity. The subprime crisis has not resulted in any notable burdens for HSBC Trinkaus & Burkhardt as it holds almost no ABS positions.

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

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions. The limits used here are assigned to the trading divisions once a year by the asset and liability management committee on the basis of their capacity to assume risk. 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 overall, it was not necessary to reduce the risk limits in the latest financial year on overall Bank level. The Market Risk Controlling department also monitors the limits prescribed by HSBC and reports risk figures in relation to the Group-wide aggregation of market risk to the majority partner.

The average market risk potential in the long-term investments (99% confidence interval/10-day holding period) came to €3.2 million (2006: €2.0 million). Market risks in the Bank's investment book are determined outside the risk models and are controlled at executive management level.

Liquidity risk

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

Trading assets are mainly self-financed by the trading department by taking up or issuing structured promissory note loans, bonds and certificates. Demand deposits and time deposits by customers are reinvested, despite a high level of core deposits in short-dated money market securities of the HSBC Group, as financial security within the scope of securities lending transactions to finance short-date forward buying by customers or in the inter-bank money market. Almost all bonds in the investment portfolio, as well as significant amounts of bonds in the trading portfolio, are eligible as collateral with the German Bundesbank as well as various clearing institutions. This fully covers the needs of our various business activities. In order to tap into additional liquidity reserves, we have been participating in the Deutsche Bundesbank's new electronic submission procedure for loan receivables since January 2007.

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 ratios are constantly monitored and liquidity commitment reports with various scenarios employed periodically.

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

31.12.2007					
			Gross outflow (undiscounted)		
in € million	Carrying amount	∑	< 3 months	3 to 12 months	> 12 months
Deposits by banks	2,532.7	2,559.4	2,318.3	48.5	192.6
Customer accounts	10,283.2	10,403.8	9,732.0	169.3	502.5
Certificated liabilities	10.0	13.9	0.4	0.0	13.5
Trading liabilities	6,488.4	6,963.2	4,128.5	518.9	2,315.8
of which derivatives	1,642.0	1,845.0	349.9	460.5	1,034.6
Provisions	112.4	117.2	105.3	0.0	11.9
Other liabilities	110.2	114.8	71.9	6.5	36.4
Subordinated capital	458.7	688.5	3.1	20.4	665.0
Loan commitments	3,704.3	3,704.3	3,704.3	0.0	0.0
Total	**23,699.9**	**24,565.1**	**20,063.8**	**763.6**	**3,737.7**

31.12.2006					
		Gross outflow (undiscounted)			
in € million	Carrying amount	∑	< 3 months	3 to 12 months	> 12 months
Deposits by banks	1,495.7	1,506.2	1,441.2	30.9	34.1
Customer accounts	8,861.4	8,965.2	8,438.2	114.6	412.4
Certificated liabilities	29.8	31.4	0.0	20.2	11.2
Trading liabilities	6,683.6	7,228.7	4,166.3	420.0	2,642.4
of which derivatives	1,664.3	1,935.3	255.8	332.3	1,347.2
Provisions	113.0	126.6	0.0	60.1	66.5
Other liabilities	105.4	109.5	30.6	53.4	25.5
Subordinated capital	440.6	653.5	5.1	10.3	638.1
Loan commitments	3,701.1	3,701.1	3,701.1	0.0	0.0
Total	**21,430.6**	**22,322.2**	**17,782.5**	**709.5**	**3,830.2**

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

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

Our internal cash reserves still comfortably exceed the supervisory requirements. In the light of this, we are therefore not planning to introduce an internal model for liquidity risk at present. The tensions on the money markets resulting from the subprime crisis highlight the importance of responsible liquidity management. The Bank has not entered into any obligations arising from liquidity lines for SPVs. Our defensive business policy approach has proven itself in the crisis and is also to be upheld in the future.

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

in € million		Up to 3 months	> 3 months to 1 year	> 1 year	No fixed term	Total
Deposits by banks	31.12.2007	3,365.1	751.5	0.4	0.0	4,117.0
	31.12.2006	4,411.8	28.3	0.0	0.0	4,440.1
Customer accounts	31.12.2007	3,297.6	583.7	391.6	0.0	4,272.9
	31.12.2006	2,546.5	291.8	334.8	0.0	3,173.1
Trading assets	31.12.2007	10,436.8	0.0	0.0	0.0	10,436.8
	31.12.2006	9,044.0	0.0	0.0	0.0	9,044.0
Financial assets	31.12.2007	74.7	209.8	758.7	525.0	1,568.2
	31.12.2006	258.5	93.7	740.5	334.9	1,437.6
Other assets	31.12.2007	25.6	19.8	0.0	31.9	77.3
	31.12.2006	54.5	4.3	0.0	9.8	68.6
Total	**31.12.2007**	**17,199.8**	**1,564.8**	**1,150.7**	**556.9**	**20,472.2**
	31.12.2006	**16,315.3**	**418.1**	**1,075.3**	**354.7**	**18,163.4**

In € million		Up to 3 months	> 3 months to 1 year	> 1 year	No fixed term	Total
Deposits by banks	31.12.2007	2,316.9	47.4	168.4	0.0	2,532.7
	31.12.2006	1,437.3	30.2	28.2	0.0	1,495.7
Customer accounts*	31.12.2007	9,708.1	165.8	409.3	0.0	10,283.2
	31.12.2006	8,417.2	112.2	332.1	0.0	8,861.4
Certificated liabilities	31.12.2007	0.0	0.0	10.0	0.0	10.0
	31.12.2006	0.0	19.8	10.0	0.0	29.8
Trading liabilities**	31.12.2007	6,488.4	0.0	0.0	0.0	6,488.4
	31.12.2006	6,683.6	0.0	0.0	0.0	6,683.6
Provisions	31.12.2007	105.3	0.0	7.1	0.0	112.4
	31.12.2006	0.0	58.8	54.2	0.0	113.0
Other liabilities	31.12.2007	71.4	6.3	32.5	0.0	110.2
	31.12.2006	30.4	52.2	22.8	0.0	105.4
Subordinated capital	31.12.2007	0.0	0.0	458.7	0.0	458.7
	31.12.2006	5.1	10.1	425.4	0.0	440.6
Total	**31.12.2007**	**18,690.1**	**219.5**	**1,086.0**	**0.0**	**19,995.6**
	31.12.2006	**16,573.6**	**283.2**	**872.7**	**0.0**	**17,729.5**

* Customer deposits include savings deposits for the first time. The prior-year figures have been adjusted accordingly.
** Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the actual maturity. A breakdown by residual term for derivatives pursuant to their legal maturities can be found in Note 57.

Staff

Number of employees

The number of employees increased during 2007 by 209 compared to the previous year to a total of 1,828 at the end of the year. Eight trainees completed their banking qualifications and ten passed their examinations in office communications in the year under report. Two trainees also successfully completed their training in information technology. At the end of 2007 we were paying retirement, widow’s and orphan’s pensions to 546 recipients, compared to 533 at the end of the previous year.

Advanced training

In view of the demographic trend and the extremely high demands we at the Bank make of ourselves, the professional and social skills of our employees are of the utmost importance in two respects. Only with qualified and motivated personnel can we meet our clients’ exacting quality standards in the long term. Taking this into consideration, we pay particular attention to the further training of our employees. For example, we help them to advance by providing individual in-house product-specific training for both client-related and various specialist areas of the Bank, leadership and acquisition seminars and communication training. Our advanced training activities are rounded off by specialised study and training courses as well as PC and IT seminars and foreign language courses (also in preparation for secondments abroad). When selecting vocational training measures and recruiting suitable trainers, we pay close attention to the special requirements made of our employees in the various areas of our business.

Performance-related remuneration

Performance-related remuneration remains of major importance for motivating our staff, regardless of whether they are tariff or non-tariff employees. The incentive provided for our managerial staff in the form of a profit participation scheme is to be pointed out here in particular.

Thanks

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

Shareholders and Shares

Capital

At 31 December 2007 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.

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

Share price and market value

During 2007 our share price rose 8.6% to €114.00. The lowest fixing price of the year was €101.00 and the highest €122.50. From the initial issue price of DM190 per DM50 nominal share (25 October 1985) the exchange price and market capitalisation have developed as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in € million
31.12.1985	18,000,000	17.6	317.5
31.12.1990	22,000,000	19.8	435.3
31.12.1995	23,500,000	30.6	718.5
31.12.2000	26,100,000	110.0	2,871.0
31.12.2005	26,100,000	87.5	2,283.8
31.12.2006	26,100,000	105.0	2,740.5
31.12.2007	26,100,000	114.0	2,975.4

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

Dividends

For the 2007 financial year we propose paying a dividend of €2.50 per share (2006: €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 2007.

Consolidated Financial Statements

Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

Assets in € million	(Notes)	31.12.2007	31.12.2006	Change	
				in € million	in %
Cash reserve	(19)	332.3	436.3	-104.0	-23.8
Loans and advances to banks	(4, 20)	4,117.0	4,440.1	-323.1	-7.3
Loans and advances to customers	(4, 21)	4,272.9	3,173.1	1,099.8	34.7
Net loan impairment provisions	(6, 22)	-16.2	-17.0	0.8	4.7
Trading assets	(4, 23)	10,436.8	9,044.0	1,392.8	15.4
Financial assets	(4, 24)	1,568.2	1,437.6	130.6	9.1
Interests in associates	(25)	15.2	1.5	13.7	> 100.0
Property, plant and equipment	(9, 26)	196.3	80.4	115.9	> 100.0
Intangible assets	(10, 26)	12.3	9.3	3.0	32.3
Income tax assets	(14, 27)	54.8	2.5	52.3	> 100.0
current		54.8	2.5	52.3	> 100.0
deferred		0.0	0.0	0.0	0.0
Other assets	(28)	77.3	68.6	8.7	12.7
Total assets		**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Liabilities in € million	(Notes)	31.12.2007	31.12.2006	Change	
				in € million	in %
Deposits by banks	(4, 31)	2,532.7	1,495.7	1,037.0	69.3
Customer accounts	(4, 32)	10,283.2	8,861.4	1,421.8	16.0
Certificated liabilities	(33)	10.0	29.8	-19.8	-66.4
Trading liabilities	(4, 34)	6,488.4	6,683.6	-195.2	-2.9
Provisions	(13, 35)	112.4	113.0	-0.6	-0.5
Income tax liabilities	(14, 36)	106.2	62.0	44.2	71.3
current		48.4	25.7	22.7	88.3
deferred		57.8	36.3	21.5	59.2
Other liabilities	(37)	110.2	105.4	4.8	4.6
Subordinated capital	(38)	458.7	440.6	18.1	4.1
Shareholders' equity	(39)	965.1	884.9	80.2	9.1
Share capital		70.0	70.0	0.0	0.0
Capital reserve		212.9	211.4	1.5	0.7
Retained earnings		486.7	481.8	4.0	0.8
Consolidated profit available for distribution		195.5	121.7	73.8	60.6
Total equity and liabilities		**21,066.9**	**18,676.4**	**2,390.5**	**12.8**

Consolidated Income Statement
HSBC Trinkaus & Burkhardt

Income statement in € million	(Notes)	2007	2006	Change	
				in € million	in %
Interest income		448.4	285.1	163.3	57.3
Interest expense		338.4	196.5	141.9	72.2
Net interest income	(41)	110.0	88.6	21.4	24.2
Net loan impairment and other credit risk provisions	(6, 43)	-3.5	-5.2	1.7	-32.7
Share of profit in associates	(42)	6.4	2.5	3.9	> 100.0
Fee income		620.7	520.4	100.3	19.3
Fee expenses		302.6	238.6	64.0	26.8
Net fee income	(44)	318.1	281.8	36.3	12.9
Net trading income	(45)	100.1	104.0	-3.9	-3.8
Administrative expenses	(46)	333.4	298.6	34.8	11.7
Net income from financial assets	(47)	1.9	6.5	-4.6	-70.8
Net other income/expenses	(48)	1.2	-0.5	1.7	> 100.0
Profit before taxes		**207.8**	**189.5**	**18.3**	**9.7**
Tax expense	(49)	63.4	74.9	-11.5	-15.4
Net profit for the year		**144.4**	**114.6**	**29.8**	**26.0**
Profit brought forward		51.1	7.1	44.0	> 100.0
Consolidated profit available for distribution		**195.5**	**121.7**	**73.8**	**60.6**
Dividend distribution		65.3	65.3	0.0	0.0
Retained earnings and profit brought forward		**130.2**	**56.4**	**73.8**	**> 100.0**

The Management Board proposes to the Annual General Meeting the distribution of a dividend of €2.50 per share (2006: €2.50 per share).

Earnings per share

	2007	2006
Net profit for the year in € million	144.4	114.6
Profit attributable to minority interests in € million	0.0	0.0
Net profit for the year after minority interests in € million	144.4	114.6
Average number of shares in circulation (in million)	26.1	26.1
Earnings per share in €	**5.53**	**4.39**
Undiluted earnings per share in €	**5.53**	**4.39**

As in 2006, there were no option and conversion rights outstanding for the purchase of shares in the 2007 financial year. There was therefore no calculable dilution effect. This means that for the past two financial years, basic earnings per share have equalled undiluted earnings per share.

No modification to any accounting methods, assessment methods or consolidation methods (cf. Note 17) had a material impact on earnings per share.

Consolidated Statement of Changes in Equity HSBC Trinkaus & Burkhardt

in € million	Share capital	Capital reserve	Retained earnings	Consolidated profit available for distribution	Minority interests	Equity
At 31.12.2005	**70.0**	**211.0**	**430.9**	**122.7**	**0.0**	**834.6**
Dividend distribution				-65.3		-65.3
Retention from 2005 profit available for distribution			50.3	-50.3		0.0
Currency translation differences			0.0			0.0
Addition from net profit for the year				114.6		114.6
Gains/losses not recognised in the income statement			0.6			0.6
Share option scheme		0.4				0.4
At 31.12.2006	**70.0**	**211.4**	**481.8**	**121.7**	**0.0**	**884.9**
Dividend distribution				-65.3		- 65.3
Retention from 2006 profit available for distribution			5.3	-5.3		0.0
Currency translation differences						0.0
Addition from net profit for the year				144.4		144.4
Gains/losses not recognised in the income statement			-1.0			-1.0
Effect on equity of first-time consolidation at equity			0.6			0.6
Share-based payments		1.5				1.5
At 31.12.2007	**70.0**	**212.9**	**486.7**	**195.5**	**0.0**	**965.1**

Comprehensive income for the period

in € million	2007	2006
Net profit for the year	144.4	114.6
Gains/losses not recognised in the income statement	-1.0	0.6
of which from financial instruments	-12.4	-5.3
of which from actuarial results	11.4	5.9
Total	**143.4**	**115.2**

See Note 39 on the development of unrealised gains/losses from financial instruments.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in € million	2007	2006
Net profit for the year	144.4	114.6
Non-cash items in net profit and adjustments to reconcile net profit to net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	36.6	61.1
Net profit from sale of equity-linked financial investment instruments, property and equipment	0.0	-0.1
Other adjustments (net)	-52.0	4.5
Sub-total	129.0	180.1
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	323.1	-1,129.7
Loans and advances to customers	-1,102.1	-695.9
Securities held for trading	-1,588.0	-635.6
Other assets	-179.5	-26.1
Liabilities	2,459.1	1,977.9
Certificated liabilities	-19.8	-4.8
Other liabilities	5.0	-52.6
Total adjustments	-102.2	-566.8
Interest received	446.8	276.1
Dividends received	8.0	11.5
Interest paid	-338.5	-196.5
Income taxes paid	-54.8	-119.1
Cash flows from operating activities	**88.3**	**-414.7**
Proceeds from sale of		
Equity-linked financial investment instruments	0.1	1.5
Property, plant and equipment	1.0	1.4
Purchase of		
Equity-linked financial investment instruments	-15.0	-2.4
Property, plant and equipment	-131.3	-15.2
Effects of changes in the group of consolidated companies	0.0	0.0
Cash flows from investing activities	**-145.2**	**-14.7**
Dividends paid	-65.3	-65.3
Adjustments to subordinated capital	18.2	132.4
Cash flows from financing activities	**-47.1**	**67.1**
Cash and cash equivalents at beginning of year	**436.3**	**798.6**
Cash flows from operating activities	88.3	-414.7
Cash flows from investing activities	-145.2	-14.7
Cash flows from financing activities	-47.1	67.1
Cash and cash equivalents at end of year	**332.3**	**436.3**

Notes to the Consolidated Financial Statements

Fundamental Accounting Policies

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2007 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Section 315a (1) of the German Commercial Code (HGB) has also been taken into consideration.

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

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

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

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

At the end of 2007, HSBC Holdings plc had an indirect interest of 78.6% in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Information on Accounting, Valuation and Consolidation Methods

1 Scope of Consolidation

The consolidated financial statements include as subsidiaries all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt AG, directly or indirectly holds the majority of the voting rights or over which it exercises a controlling influence. In addition, we have fully consolidated three special funds (2006: two) in accordance with SIC 12. A detailed list of the consolidated companies and special funds can be found in Note 61.

HSBC Trinkaus Consult GmbH, Düsseldorf, and Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH, Düsseldorf are no longer included within the scope of consolidation.

The following companies–Deutscher Pension Trust GmbH, Trinkaus Immobilien-Fonds Verwaltungs-GmbH, Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG and Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH–all of which have registered offices in Düsseldorf, were established during the financial year under report and are therefore included for the first time within the scope of consolidation.

HSBC Trinkaus also increased its stake in SINO AG, Düsseldorf, to 25.13% initially as at 31 March 2007 and finally to 26.59% as at 7 December 2007. SINO AG is therefore recognised for the first time in the year under report as an associated company consolidated at equity.

2 Consolidation Principles

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

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

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

3 Foreign Currency Translation

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

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

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

Transactions carried out by foreign subsidiaries are translated in accordance with the modified reporting date method; balance sheet items are translated using the exchange rate applicable at the reporting date (closing rate), while income and expenditure are translated at the relevant average rate. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings. Translation differences recognised in, or without effect on, the income statement had no significant impact in the 2007 financial year, as in the previous year.

4 Financial Instruments

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

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

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

Where it is necessary pursuant to IAS 39 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.

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

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

Measurement

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

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

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

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

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

b) Held-to-maturity investments

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

c) Loans and receivables

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

d) Financial assets available-for-sale

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

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

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

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

e) Other Liabilities

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

5 Hedge Accounting

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

6 Net Loan Impairment and Other Credit Risk Provisions

We show net loan impairment and other credit risk provisions as risk provisions for loans and advances on the assets side, and as provisions for credit risks on the liabilities side. Net loan impairment provisioning differentiates between individual impairment provisions and collective impairment provisions.

Individual impairment provisions in relation to on-balance-sheet items and off-balance-sheet transactions are determined individually for each borrower. The Credit Department classifies all borrowers in one of 22 ratio categories using a Group-wide, standardised internal credit rating procedure. The debtor's country of domicile is also relevant. Please refer to the chapter on the financial position in the consolidated Financial Statements for further explanations–especially on calculating write-downs/provisions.

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

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

7 Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The inflow of liquidity is generally reported under the balance sheet item trading liabilities instead of deposits by banks as in the past (cf. Note 34). The prior-year figure was adjusted accordingly.

Similarly, the outflow of liquidity arising from reverse repos is reported for the first time in the year under report under the balance sheet item trading assets, instead of as loans and advances to banks or clients (cf. Note 23). This facilitates more appropriate reporting. Securities purchased under agreements to resell are not reported.

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

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions were reported for the first time in the year under report under the balance sheet items trading assets or trading liabilities, instead of under loans and advances to banks or customers, or deposits by banks (cf. Notes 23 and 34).

8 Interests in Associates

Our interest in International Transactions Services GmbH (ITS), a joint venture with T-Systems Enterprise Services GmbH, and for the first time SINO AG, is reported under interests in associates.

9 Property, Plant and Equipment

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

Land and buildings are used almost entirely for the banking business. Additionally, properties that are held for investment purposes and are generally marketed within the framework of property funds are reported under this item.

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

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

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

In 2007 there was an increase in non-scheduled write-downs on the value of property and buildings totalling €0.1 million (2006: €0.0 million) which is disclosed under net other income/expenses (cf. Note 48). There were no write-ups in the year under report (2006: €0.2 million). Non-scheduled write-downs are made on the basis of the annual valuations and always reflect the change in the economic valuation of a property. For the purposes of segment reporting, non-scheduled depreciation is allocated to “central divisions/consolidation” (cf. Note 53).

Profits/losses from the disposal of property, plant and equipment totalling €0.1 million (2006: €0.3 million) were shown in net other income/expenses (cf. Note 48). Repairs, maintenance and other measures required for the upkeep of property, plant and equipment are recorded as expenses in the financial year in which they were incurred.

10 Intangible Assets

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

11 Leasing

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

12 Treasury Bonds and Shares

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

At the end of 2007, no Group company held any shares in HSBC Trinkaus & Burkhardt AG. During the latest financial year 14,861 treasury shares were bought at an average price of €113.38 (2006: €87.34) and sold at an average price of €115.01 (2006: €87.82). As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.03% (2006: 0.73%) of the nominal capital.

13 Provisions

Provisions for pensions and uncertain liabilities are reported under provisions.

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

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

14 Income Tax Assets and Liabilities

Current income taxes are calculated in accordance with the tax rates applicable for each individual company. Current income tax assets are offset against current income tax liabilities provided the offsetting requirements specified in IAS 12 are fulfilled.

Deferred income taxes are calculated by comparing the balance sheet valuations of the assets and liabilities with the valuations that are used for the taxation of the Group company in question. Deferred tax assets or deferred tax liabilities must be taken into consideration 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–such as brought about by the German business tax reform passed in 2008–the balance sheet entries for deferred tax assets or deferred tax liabilities will be adjusted accordingly (cf. Note 49).

15 Share-based Payments

The Group employees have the opportunity to participate in a share option scheme offered by the parent company HSBC Holdings plc. The share option scheme is graduated according to different blocking periods (1, 3 and 5 years). In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The personnel expenses derived from this–apportioned to the respective blocking period–are recognised in the income statement.

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

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

16 Reporting of Income and Expenses

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

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

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

17 IFRS Treatment Applied

IFRS 7, Financial instruments: Disclosures, was applied for the first time in the year under report. The standard replaces the bank-specific standard used to date, namely IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions. IFRS 7 redefines the disclosure of financial instruments and bundles the reporting rules together in one standard. Furthermore, the standard contains disclosure requirements in relation to risk reporting, which we will deal with within the Risk Report as part of the audited consolidated Financial Statements.

The amendments to IAS 1, resulting from the adoption of IFRS 7, with regard to the presentation of capital management objectives and methods can be found in Note 39.

IFRIC 9, Reassessment of Embedded Derivatives, deals with a potential separation obligation of embedded derivatives, provided the requirements for such a split are not met at settlement but in a later period. The first-time adoption of this interpretation brought about no changes to the existing procedure.

IFRIC 10, Interim Financial Reporting and Impairment, states that a company may not reverse any impairment losses on equity instruments recognised in an earlier interim period. IFRIC was adopted for the first time in the year under report. It has not resulted in any changes to the existing procedure.

The other standards or interpretations which were applied for the first time in 2007 had no material impact.

Standard IAS 1, Presentation of Financial Statements, which was amended in 2007, governs the improved presentation in the balance sheet; furthermore, the changes serve to promote greater harmonisation with the reporting rules of US-GAAP. This should have no material effects on our financial statements.

IFRS 8, Operating Segments, was published on 30 November 2006 and is obligatory for all financial statements that start on or after 1 January 2009. The new standard will essentially adopt the management approach to segment reporting. Due to the late endorsement in November 2007, we will not take the standard into consideration until the 2008 financial year. The adoption is unlikely to lead to any material changes.

IFRIC 11, IFRS 2, Group and Treasury Share Transactions, regulates the treatment of share-based remuneration within the entire Group. Interpretation will not be taken into consideration until the next financial year. As it stands, we do not anticipate any material effects from the adoption of the standard.

Other applications that are not yet obligatory in 2007 will not have any material effect on the Bank.

18 Material Events occurring after the Balance Sheet Date

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

Notes to the Consolidated Balance Sheet

19 Cash Reserve

€ million	31.12.2007	31.12.2006
Cash and cash equivalents	2.0	2.4
Balances with central banks	330.3	433.9
Total	**332.3**	**436.3**

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

20 Loans and Advances to Banks

€ million	31.12.2007	31.12.2006
Current accounts	722.1	521.8
Money market transactions	3,313.5	3,665.3
of which overnight money	0.4	0.0
of which term deposits	3,313.1	3,665.3
Other loans and advances	81.4	253.0
Total	**4,117.0**	**4,440.1**
of which loans and advances to domestic banks	1,382.3	1,716.0
of which loans and advances to foreign banks	2,734.7	2,724.1

The moderate decline in loans and advances to banks is primarily due to the increase in lending to our clients. Furthermore, funds were invested increasingly by our Global Markets division in the form of certificates of deposit.

21 Loans and Advances to Customers

€ million	31.12.2007	31.12.2006
Current accounts	1,651.1	1,092.8
Money market transactions	1,025.7	943.5
of which overnight money	279.8	237.5
of which term deposits	745.9	706.0
Loan accounts	1,562.5	1,122.0
Other loans and advances	33.6	14.8
Total	**4,272.9**	**3,173.1**
of which loans and advances to domestic customers	3,128.9	2,384.5
of which loans and advances to foreign customers	1,144.0	788.6

As in the previous year, the increase in loans and advances to customers highlights the growth in our credit business, not least with our newly acquired clients.

22 Net Loan Impairment and other Credit Risk Provisions

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

€ million	31.12.2007	31.12.2006
Impairment charges / recoveries for loans and advances	16.2	17.0
Other credit risk provisions	7.5	10.9
Net loan impairments and other credit risk provisions	**23.7**	**27.9**

Impairment provisions for loans and advances relate exclusively to charges/recoveries on loans and advances to customers.

Risk provisions for loans and advances developed as follows:

	Impairment provisions				Total	
	individually assessed		collectively assessed			
€ million	2007	2006	2007	2006	2007	2006
As at 1 January	11.7	21.1	5.3	5.0	17.0	26.1
Reversals	1.2	4.0	1.6	0.0	2.8	4.0
Utilisation	1.0	5.5	0.0	0.0	1.0	5.5
Additions	3.1	0.2	0.0	0.1	3.1	0.3
Currency translation/ transfers	-0.1	-0.1	0.0	0.2	-0.1	0.1
As at 31 December	**12.5**	**11.7**	**3.7**	**5.3**	**16.2**	**17.0**

Provisions for credit risks developed as follows:

	Other credit risk provisions				Total	
	individually assessed		collectively assessed			
€ million	2007	2006	2007	2006	2007	2006
As at 1 January	10.0	11.7	0.9	1.5	10.9	13.2
Reversals	3.9	3.0	0.0	0.4	3.9	3.4
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.5	1.2	0.0	0.0	0.5	1.2
Currency translation/ transfers	0.0	0.1	0.0	-0.2	0.0	-0.1
As at 31 December	**6.6**	**10.0**	**0.9**	**0.9**	**7.5**	**10.9**

23 Trading Assets

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities	6,241.9	3,978.9
of which:		
public-sector issuers	181.6	123.2
other issuers	6,060.3	3,855.7
of which:		
listed	2,976.8	2,047.7
unlisted	3,265.1	1,931.2
Equities and other non-fixed-income securities	479.4	859.0
of which:		
listed	478.5	858.8
unlisted	0.9	0.2
Tradable receivables	813.1	1,136.8
Positive market value of derivatives	1,860.6	1,905.8
of which:		
OTC-derivatives	1,311.8	1,326.4
exchange-traded derivatives	548.8	579.4
Reverse repos	214.6	342.5
Securities lending	827.2	821.0
Total	**10,436.8**	**9,044.0**

The sharp rise is primarily due to the purchase of certificates of deposit from other banks within the HSBC Group. Tradable receivables are recognised largely as promissory note loans and registered bonds. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives (cf. Note 34).

The item securities lending comprises funds we provided as collateral for borrowed securities (cf. Notes 30 and 59).

24 Financial Assets

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

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities and interest rate derivatives	886.1	929.6
of which:		
public-sector issuers	268.1	316.5
other issuers	618.0	613.1
of which:		
listed	834.5	864.6
unlisted	51.6	65.0
Equities	41.5	49.2
Investments	383.3	221.7
Promissory note loans	157.2	163.1
Interests in subsidiaries	100.1	74.0
Total	**1,568.2**	**1,437.6**

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

Financial assets include exchange-traded forward transactions in the amount of €0.3 million (2006: €0.6 million).

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

€ million	31.12.2007	31.12.2006
Bonds and other fixed-income securities	14.9	35.8
Equities	0.9	4.0
Investments	16.0	25.0
Promissory note loans	8.6	15.0
Interests in subsidiaries	43.4	32.2
Total	**83.8**	**112.0**

25 Interests in Associates

In the 2007 financial year, Trinkaus & Burkhardt increased its shareholding in SINO AG, Düsseldorf, to 26.59%. SINO AG is therefore recognised for the first time as an associated company consolidated at equity. The following table provides information on the development of interests in associates:

€ million	2007	2006
Book value as at 1 January	**1.5**	**0.0**
Additions	9.8	0.0
Share of results of financial year	5.4	2.5
Elimination of interim result	1.0	0.5
Dividend distribution	-2.5	-1.5
Book value as at 31 December	**15.2**	**1.5**

The book value of the publicly listed investments acquired this year amounts to €9.8 million; the market value of these investments is €11.1 million.

26 Investment Overview - Property, Plant and Equipment and Intangible Assets

€ million	Land and property	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 1.1.2007	94.1	50.9	145.0	29.7
Increases	115.4	10.0	125.4	5.8
Reversals	0.0	5.1	5.1	0.0
Acquisition costs as at 31.12.2007	209.5	55.8	265.3	35.5
Depreciation as at 1.1.2007	32.5	32.0	64.5	20.4
Scheduled depreciation	1.3	7.2	8.5	2.8
Non-scheduled depreciation	0.1	0.0	0.1	0.0
Depreciation of reversals	0.0	4.1	4.1	0.0
Depreciation as at 31.12.2007	33.9	35.1	69.0	23.2
Carrying amount as at 31.12.2007	**175.6**	**20.7**	**196.3**	**12.3**
Carrying amount as at 31.12.2006	**61.5**	**18.9**	**80.4**	**9.3**

We reported for the first time in the year under report a property that is not mainly owner-occupied under land and property. This property was acquired for €115.2 million in December 2007 and will be marketed within the framework of a property fund.

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

27 Income Tax Assets

€ million	31.12.2007	31.12.2006
Current income tax assets	54.8	2.5
Deferred income tax assets	0.0	0.0
Total	**54.8**	**2.5**

The receivables from current income taxes relate predominantly to domestic taxes.

28 Other Assets

Other assets of €77.3 million (2006: 68.6 million) consist mainly of excess cover from our CTA of €31.9 million (2006: €9.8 million), as well as other taxes of €4.9 million (2006: €3.8 million).

29 Subordinated Assets

The following overview shows the composition of our subordinated assets:

€ million	31.12.2007	31.12.2006
Loans and advances to customers	0.0	0.1
Bonds and other fixed-income securities	143.5	108.1
Profit-participation certificates	28.4	27.3
Total	**171.9**	**135.5**

30 Repurchase Agreements

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

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

€ million	31.12.2007		31.12.2006	
Type of transaction	Market value of the transferred financial assets	Carrying amount of the associated financial liabilities	Market value of the transferred financial assets	Carrying amount of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.2
Securities lending transactions	25.7	0.0	78.5	206.6
Total	**25.7**	**0.0**	**78.5**	**206.8**

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

€ million	31.12.2007		31.12.2006	
Type of transaction	Fair value of the transferred financial assets	Carrying amount of the associated receivables	Fair value of the transferred financial assets	Carrying amount of the associated receivables
Repurchase agreements	243.6	214.6	364.6	342.5
of which may be sold or pledged	158.9		194.9	
of which are already sold or pledged	84.7		169.7	
Securities lending transactions	1,623.9	827.2	1,611.1	821.0
of which may be sold or pledged	1,036.4		924.8	
of which are already sold or pledged	587.5		686.3	
Total	**1,867.5**	**1,041.8**	**1,975.7**	**1,163.5**

The Bank acts as protection purchaser as well as protection provider within the scope of repurchase agreements and securities lending transactions (cf. Note 59).

The relevant transactions were carried out at normal market conditions.

31 Deposits by Banks

€ million	31.12.2007	31.12.2006
Current accounts	611.2	549.5
Money market transactions	1,750.3	765.6
of which overnight money	603.2	136.5
of which term deposits	1,147.1	629.1
Other liabilities	171.2	180.6
Total	**2,532.7**	**1,495.7**
of which deposits by domestic banks	1,346.5	618.3
of which deposits by foreign banks	1,186.2	877.4

As at 31 December 2007, deposits by banks secured by charges on real property amounted to €20.5 million (2006: €21.5 million).

32 Customer Accounts

€ million	31.12.2007	31.12.2006
Current accounts	5,283.9	3,905.2
Money market transactions	4,523.4	4,527.6
of which overnight money	607.1	1,238.5
of which term deposits	3,916.3	3,289.1
Savings deposits	13.2	13.6
Other liabilities	462.7	415.0
Total	**10,283.2**	**8,861.4**
of which liabilities to domestic customers	7,462.8	6,407.7
of which liabilities to foreign customers	2,820.4	2,453.7

The increase in customer accounts is the result essentially of a strong inflow of funds from institutional clients and investment funds.

33 Certificated Liabilities

Securitised liabilities relate to bond issues in the amount of €10.0 million (2006: €29.8 million).

34 Trading Liabilities

€ million	31.12.2007	31.12.2006
Negative market value of derivatives	1,642.0	1,664.3
Discount certificates, promissory note loans, bonds and warrants	4,291.8	4,692.1
Delivery obligations from securities sold short	554.6	120.4
Repurchase transactions	0.0	0.2
Securities lending transactions	0.0	206.6
Total	**6,488.4**	**6,683.6**

The issue and placement of certificates and warrants, as well as of structured promissory note loans and bonds, are the direct responsibility of the trading divisions. These issues are accordingly recognised as trading liabilities pursuant to IAS 39, and are valued at their fair value. The decline in the negative market value of the derivatives corresponds with the falling positive market value of the derivatives (cf. Note 23).

Funds that we received as security pledged for borrowed securities are reported under securities lending transactions.

35 Provisions

€ million	As at 1.1.2007	Utilisation	Reversals	Additions	Transfers	Actuarial result	As at 31.12.2007
Provisions related to human resources	58.8	45.5	0.8	59.6	-8.2	0.0	63.9
Provisions for pensions and similar obligations	10.4	4.8	0.0	0.7	22.1	-21.3	7.1
Provisions for credit risks	10.9	0.0	3.9	0.5	0.0	0.0	7.5
Provisions for other taxes	3.0	0.2	0.0	0.0	0.0	0.0	2.8
Other provisions	29.9	4.5	5.1	10.7	0.1	0.0	31.1
Total provisions	**113.0**	**55.0**	**9.8**	**71.5**	**14.0**	**-21.3**	**112.4**

The additions to plan assets and the change in the plan surplus are shown in the transfers column. Obligations from performance-related remuneration are essentially reported under provisions related to human resources.

Provisions for Pensions and Similar Obligations

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

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

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

Additionally, several Group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e.V. These defined contribution plans cost €4.0 million in the year under report (2006: €3.7 million).

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

in %	31.12.2007	31.12.2006
Long-term base rate of interest	5.5	4.5
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5
Estimated return on plan assets	6.0	6.0

Due to higher yields from first-class fixed-interest industrial bonds, the base interest rate was increased to 5.5%.

The expected returns for the plan assets were determined on the basis of the historical average performance of the fund in which the plan assets are invested. These estimates will be maintained for 2008 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 for semi-retirement, early retirement and anniversary payments.

Development of Pension Obligations

€ million	2007	2006
Pension obligations as at 1 January	**197.2**	**202.8**
Service cost	4.3	7.4
Interest expense	8.8	7.4
Pensions paid	-10.6	-9.7
Transfers and others	0.0	-0.2
Change in actuarial gains and losses	-22.8	-10.5
Pension obligations as at 31 December	**176.9**	**197.2**

Breakdown of Pension Obligations

€ million	2007	2006	2005	2004	2003
Non-funded pension obligations	**4.3**	**4.8**	**4.8**	**172.9**	**147.3**
Funded pension obligations					
Present value of pension obligations	172.6	192.4	198.0	0.0	0.0
Fair value of plan assets	201.7	196.6	181.6	0.0	0.0
Balance	-29.1	-4.2	16.4	0.0	0.0
of which plan shortfall	**2.8**	**5.6**	**16.4**	**0.0**	**0.0**
of which plan excess	31.9	9.8	0.0	0.0	0.0
Total pension obligations	**7.1**	**10.4**	**21.2**	**172.9**	**147.3**
of which actuarial gains and losses					
from plan assets	-1.1	0.4	1.2	0.0	0.0
from plan obligations	-16.2	-39.0	-49.5	-25.9	-7.9

Development of the Fair Value of Plan Assets

€ million	2007	2006
Fair value of plan assets as of 1 January	**196.6**	**181.6**
Additions/withdrawals	-5.8	5.4
Estimated income from the plan assets	12.4	10.4
Change in actuarial gains and losses	-1.5	-0.8
Fair value of plan assets as of 31 December	**201.7**	**196.6**

The actual income from plan assets in the year under review amounted to €10.9 million (2006: €9.6 million). It is expected that no contributions will be paid into the plan in 2008, as in 2007.

Breakdown of the Fair Value of Plan Assets

€ million	2007	2006
Bonds and other fixed-income securities	96.4	110.3
Equities	49.0	45.5
Investment funds	29.3	17.3
Reinsurance claims from life insurances	12.7	11.3
Closed-end property funds	4.0	4.0
Other	10.3	8.2
Fair value of plan assets as of 31 December	**201.7**	**196.6**

The cumulative actuarial losses, which are recorded in shareholders' equity with no effect on the income statement, amounted to €11.7 million after taxes (2006: €23.3 million). The decline is the result above all of the increase in the long-term interest rate calculated the previous year.

The provisions for risks from the credit business include provisions for anticipated losses in connection with endorsement liabilities, sureties, acceptances and credit commitments. They are part of the net loan impairment provisions (cf. Note 22).

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

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

36 Income Tax Liabilities

€ million	31.12.2007	31.12.2006
Current income tax liabilities	48.4	25.7
Deferred income tax liabilities	57.8	36.3
Total	**106.2**	**62.0**

Current income tax liabilities include provisions for income taxes to be paid to the fiscal authorities on the basis of the tax accounts of the fully consolidated Group companies; provisions for any income taxes to be paid as a result of current and future audits are also reported under this item.

The deferred taxes are our future tax burdens or relief formed for the differences between the taxation valuation and the amounts stated in the balance sheet (cf. Note 49).

As in the previous year, deferred tax refund claims are offset against income tax liabilities if the prerequisites for offsetting exist.

The deferred income tax assets and liabilities are attributable to the following items:

€ million	31.12.2007	31.12.2006	Change
	As shown in the balance sheet		
Trading portfolio*	50.1	24.1	26.0
Share-based payments	6.1	3.1	3.0
Financial assets	4.8	3.9	0.9
Net loan impairment and other credit risk provisions	3.6	3.6	0.0
Intangible assets	0.4	0.0	0.4
Joint ventures	0.0	6.0	-6.0
Buildings	-0.9	-1.0	0.1
Provisions	-3.5	-3.3	-0.2
Pensions	-5.0	-8.2	3.2
Recognised in the income statement	**55.6**	**28.2**	**27.4**
Financial assets	7.6	23.4	-15.8
Pensions	-5.4	-15.3	9.9
With effect on equity	**2.2**	**8.1**	**-5.9**
Deferred tax liabilities	**57.8**	**36.3**	**21.5**

*Balance from measurement differences in all trading activities

The reduction in tax rates due to the 2008 corporate tax reform must be incorporated when calculating the deferred taxes (cf. Note 49). Financial instruments, whose fluctuations are recognised in shareholders' equity, yield a tax credit of €2.0 million. The additional tax burden for the actuarial result from the pensions is €1.4 million.

37 Other Liabilities

€ million	31.12.2007	31.12.2006
Liabilities from other taxes	29.0	28.1
Deferred income	24.7	12.2
Accrued interest on		
subordinated liabilities	8.3	8.1
profit-participation certificates	7.4	3.8
Other	40.8	53.2
Total	**110.2**	**105.4**

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

38 Subordinated Capital

€ million	31.12.2007	31.12.2006
Subordinated liabilities (promissory note loans, bonds)	322.9	304.8
Profit participation certificates	135.8	135.8
Total	**458.7**	**440.6**

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

In the event of liquidation, insolvency, or proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against HSBC Trinkaus & 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 €399.8 million (2006: €434.8 million) before discounts and market support deductions is referred to for the calculation of liable equity capital according to Section 10 (5a) of the German Banking Act (KWG).

For the 2007 financial year, interest payable amounts to €15.6 million (2006: €13.9 million) on subordinated liabilities and to €7.4 million (2006: €3.8 million) on profit participation certificates.

Interest and Repayment of Subordinated Liabilities

Interest rates	Nominal amount (€ million) 31.12.2007	Nominal amount (€ million) 31.12.2006
5% or lower	128.2	133.2
Over 5% up to 8%	169.7	150.0
Fixed rates	297.9	283.2
Variable rates	25.0	25.0
Total	**322.9**	**308.2**

Repayment	Nominal amount (€ million) 31.12.2007	Nominal amount (€ million) 31.12.2006
Up to 1 year	0.0	15.2
Over 1 year up to 5 years	69.5	69.6
Over 5 years	253.4	223.4
Total	**322.9**	**308.2**

39 Shareholders' Equity

As at 31 December 2007, subscribed capital was unchanged at €70.0 million. As before, this is divided into 26,100,000 no-par value shares. The consideration of share-based payments settled in the form of equity instruments increased the capital reserves by €1.5 million, which we reported at €212.9 million as at 31 December 2007.

Subject to approval by the Supervisory Board, the Management Board is authorised to increase the share capital by a maximum of €23.0 million up to 31 May 2008, through one or more issues of new bearer unit shares against cash contributions or contributions in kind (authorised capital).

The share capital is subject to a conditional capital increase of up to €13.5 million by means of issuing no-par value bearer shares. The conditional capital increase shall only be executed to the extent that the holders of conversion or option rights, issued no later than 31 May 2008 on the basis of the authorisation resolution by the Annual General Meeting of 3 June 2003, exercise their conversion or option rights (conditional capital).

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

€ million	2007	2006
Net valuation reserve as at 1 January	**88.6**	**93.9**
Disposals (gross)	-6.3	2.4
Market fluctuations (gross)	-25.8	-23.3
Impairments (gross)	3.8	1.1
Deferred taxes	15.9	14.5
Net valuation reserve as at 31 December	**76.2**	**88.6**

Shareholders' Equity in Accordance with the German Banking Act (KWG)
A bank's capital for regulatory purposes is divided into three components–core capital (Tier I capital), supplementary capital (Tier II capital) and ancillary capital (Tier III capital). Core capital comprises primarily subscribed capital plus the capital reserves and retained earnings, minus intangible assets (largely software). Supplementary capital consists predominantly of profit-participation certificates, long-term subordinated liabilities and unrealised profits from listed securities.

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

€ million	2007	2006
Core capital (Tier I capital)		
Consolidated, core capital as disclosed on the balance sheet	670	651
Intangible assets	-60	-62
Total core capital	**610**	**589**
Supplementary capital (Tier II capital)		
Subordinated liabilities	297	296
Profit-participation certificates	100	136
Unrealised profits from listed securities	35	23
Consolidation	-2	-15
Total supplementary capital	**430**	**440**
Adjustment items	-10	0
Regulatory capital excluding ancillary capital	**1,030**	**1,029**
Ancillary capital (Tier III)	**0**	**2**
Total regulatory capital	**1,030**	**1,031**

€ million	2007	2006
Risk-weighted assets	7,356	6,719
Market risk equivalent	2,250	1,675
Risk exposure	**9,606**	**8,394**
Core capital (Tier I) ratio relative to risk exposure	**6.4**	**7.0**
Equity ratio (Tier I + Tier II + Tier III) relative to risk exposure	**10.7**	**12.3**

Risk-weighted assets grew considerably in 2007 while positions exposed to market risk posted a moderate increase. Regulatory capital was virtually unchanged. Thanks to this capitalisation, we not only have exceeded the minimum capital requirement expected by the banking supervisory authority, but are also in a position to further leverage growth.

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

We pay special attention to the management of shareholders' equity, above all to an appropriate return on equity, so that we do not necessarily become consciously involved in low-margin business. Nevertheless, the items for mandatory inclusion according to Liquidity Principle I have increased by a good 14% over the previous year. This increase is a result of our consistent growth path and the gradual acquisition of new clients enabling us to increasingly take on a core bank function also for major addresses. Our loan portfolio has therefore grown considerably, despite the unchanged, very strict demands placed on the credit quality requirements. We have offset this growth path in recent years by significantly increasing liable capital. We achieved this on the one hand by not distributing net profit for the year in full, always allocating to our reserves instead. On the other, we have gradually increased our subordinated capital including profit-participation certificates.

An analysis of the economic capital requirement complements this management of shareholders' equity which is focused on the regulatory requirements. Although the introduction of the Basel II accord considerably improved the risk measurement framework in the credit business in particular, there is still some discrepancy between the regulatory and economic approaches. The primary objective of our analysis of economic capital is to identify all risks and risk cushions in our business, in conjunction with addressing the Bank's risk-bearing capacity even in extreme stress scenarios. The economic capital requirements for our Bank were calculated in full for the first time in 2006, although the theoretical methods for quantifying risk have developed to varying degrees and the statistical database features different qualities, so that an aggregation of the risk is not quite without its problems. We refined this calculation in 2007 and will follow this practice at least once a year in the future. All in all, we want to ensure there is a minimum 99.95% probability that the risk cushion exceeds the risk exposure.

40 Measurement Classes

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

Liabilities as at 31.12.2007 in € million			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial commitments	Held-for-trading	
Deposits by banks	2,532.7		2,532.7
Customer accounts**	10,283.2		10,283.2
Certificated liabilities	10.0		10.0
Trading liabilities		6,488.4	6,488.4
Subordinated capital	458.7		458.7
Other financial instruments	47.9		47.9
Total financial instruments	**13,332.5**	**6,488.4**	**19,820.9**
Other liabilities, not included under IAS 39			280.9
Shareholders' equity			965.1
Total assets			**21,066.9**

* Impairment provisions for loans and advances are reported by means of direct deduction from loans and advances to banks or from loans and advances to customers.
** Our clients' deposits are used in part internally to refinance our trading divisions

Assets as at 31.12.2006 in € million					
Measurement class	At amortised cost		At fair value		Total
Measurement category	Loans and receivables	Other financial assets	Held-for-trading	Available-for-sale	
Cash reserve		436.3			436.3
Loans and advances to banks*	4,440.1				4,440.1
Loans and advances to customers *	3,156.1				3,156.1
Trading assets			9,044.0		9,044.0
Financial assets		41.3	0.6	1,395.7	1,437.6
Other financial instruments	28.9	4.8			33.7
Total financial instruments	**7,625.1**	**482.4**	**9,044.6**	**1,395.7**	**18,547.8**
Other assets not included under IAS 39					128.6
Total assets					**18,676.4**

Liabilities as at 31.12.2006 in € million			
Measurement class	At amortised cost	At fair value	Total
Measurement category	Other financial obligations	Held-for-trading	
Deposits by banks	1,495.7		1,495.7
Customer accounts**	8,861.4		8,861.4
Certificated liabilities	29.8		29.8
Trading liabilities		6,683.6	6,683.6
Subordinated capital	440.6		440.6
Other financial instruments	58.3		58.3
Total financial instruments	**10,885.8**	**6,683.6**	**17,569.4**
Other liabilities, not included under IAS 39			222.1
Shareholders' equity			884,9
Total assets			**18,676,4**

* Impairment provisions for loans and advances are reported by means of direct deduction from loans and advances to banks or from loans and advances to customers

** Our clients' deposits are used in part internally to refinance our trading divisions

Notes to the Consolidated Income statement

41 Net Interest Income

€ million	2007	2006
Interest income	**448.4**	**285.1**
from loans and advances to banks	227.2	111.2
money market transactions	211.1	97.7
other interest-bearing receivables	16.1	13.5
from loans and advances to customers	155.7	112.2
money market transactions	50.1	43.1
other interest-bearing receivables	105.6	69.1
from financial assets	65.5	61.7
interest income	55.7	51.7
dividend income	1.6	1.0
income on investments	8.2	9.0
Interest expenses	**338.4**	**196.5**
from deposits by banks	36.7	17.9
money market transactions	29.4	12.7
other interest-bearing deposits	7.3	5.2
from customer accounts	276.6	159.2
money market transactions	153.4	89.5
other interest-bearing deposits	123.2	69.7
from securitised receivables	2.1	1.7
from subordinated capital	23.0	17.7
Net interest income	110.0	88.6

During the year under report, we succeeded in significantly increasing net interest income by €21.4 million or 24.2% to €110.0 million. In addition to improved margins achieved on transactions with clients in the lending business, the higher net interest income is attributable above all to the increase in client deposits, most of which we invested in the interbank market. Furthermore, net interest income from financial assets–including income on investments–rose by €3.8 million or 6.2% to €65.5 million, thus remaining at a favourably high level.

During the period under review, interest income from financial assets subject to impairment was recognised in the amount of €2.4 million (2006: €1.1 million).

42 Share of Profit in Associates

The share of profit in associates climbed by €3.9 million to €6.4 million (2006: €2.5 million) as a result of our joint venture with International Transaction Services GmbH and our interest in SINO AG. SINO AG was reported for the first time in the year under report as an associated company consolidated at equity (cf. Note 25).

43 Net Loan Impairment and other Credit Risk Provisions

€ million	2007	2006
Additions	3.6	1.5
Reversals	6.7	7.4
Direct write-offs	0.0	1.1
Recoveries on loans and advances previously written off	0.4	0.4
Total	**-3.5**	**-5.2**

Although the year under report was defined by significant distortions in the markets for structured credit products, additions to net loan impairment provisions (customer lending) were once again lower than the reversals. We attribute this success largely to our tried-and-tested, conservative credit risk management.

44 Net Fee Income

€ million	2007	2006
Securities transactions	203.7	182.1
Foreign exchange transactions and derivatives	48.2	47.0
Issuing and structuring activities	19.8	12.3
Foreign business	13.0	13.7
Corporate finance	9.1	3.7
Payments	5.6	5.2
Lending	4.3	3.8
Real estate business	0.7	1.7
Other fee-based business	13.7	12.3
Total	**318.1**	**281.8**

Net fee income in the year under report was up by €36.3 million or 12.9% to €318.1 million. Accounting for 59.4% of the Bank's operating profit, it remains a crucial factor to the Bank's success. This positive development is due primarily to the continued rise in the number of clients in the Corporate Client and Private Banking business. The continuous improvement in our cooperation with the HSBC Group has enabled us to provide an extensive advisory service with a greater product range and reliable services, as well as offer very competitive prices for large-volume transactions.

Overall, net fee income exceeded net interest income by a factor of 2.9 (2006: 3.2).

Net fee income includes fee expenses totalling €24.2 million (2006: €17.5 million) for the settlement of securities transactions by our joint venture ITS.

Trust activities performed by the Group on its own behalf, but for the account of third parties, are not recognised in the balance sheet. Net fee income includes €0.2 million in fee income from trust activities (2006: 0.3 million). Fee expenses amounted to €0.0 million (2006: €0.0).

45 Net Trading Income

€ million	2007	2006
Equities and equity/index derivatives	79.0	80.1
Bonds and interest rate derivates	10.9	13.1
Foreign exchange	10.2	10.8
Total	**100.1**	**104.0**

At €100.1 million (2006: €104.0 million) net trading income continued to make a major contribution to the Bank's operative results. This sum again comprises trade-related net interest income. Notwithstanding the difficult market environment on the one hand, and the very high targets of the previous year on the other, our expectations were exceeded significantly.

46 Total Administrative Expenses

€ million	2007	2006
Staff expenses	203.3	189.7
Wages and salaries	181.0	164.8
Social security costs	17.2	16.0
Expenses for post-employment benefits	5.1	8.9
Other administrative expenses	118.8	98.6
Depreciation of property, plant and equipment and of intangible assets	11.3	10.3
Total	**333.4**	**298.6**

Other administrative expenses include €12.5 million (2006: €8.0 million) in expenses arising from lease payments.

The rise in other administrative expenses was due mainly to higher IT investments and increased costs incurred for implementing legal requirements. Once again, our cost income ratio of 62.0% in the year under report (2006: 61.8%) was considerably lower than our target range of 65-70%. This again demonstrates that the sharp rise in total administrative expenses is justified by more than proportionately higher returns.

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

€ million	2007	2006
Expenses for defined benefit plans	0.7	4.4
of which current service costs	4.3	7.4
of which interest expenses	8.8	7.4
of which estimated income from the plan assets	-12.4	-10.4
Expenses for defined contribution plans	4.0	3.7
Expenses for retirement pensions	0.4	0.8
Total	**5.1**	**8.9**

47 Net Income from Financial Assets

On balance, the sale of financial assets–investment funds in particular–generated realised gains of €4.0 million (€3.1 million). These are offset by impairments on long-term positions totalling €3.8 million. Furthermore, the result from the hedging of the Bank’s strategic interest-rate exposure with derivatives that do not fulfil the hedge criteria of IAS 39 is reported in net income from financial assets.

48 Net Other Income/Expenses

€ million	2007	2006
Other operating income	11.0	6.4
Other operating expenses	9.7	7.4
Other operating income/expenses	**1.3**	**-1.0**
Other income	0.1	1.0
Other expenses	0.2	0.5
Other net income	**-0.1**	**0.5**
Net other income/expenses	**1.2**	**-0.5**

Net other operating income/expenses essentially include €5.9 million (2006: €2.0 million) from the writing back of other provisions and €1.7 million (2006: €1.5 million) in rental income, as well as other income, for example from property management, of €2.0 million (€2.9 million). However, this income is more than offset by other operating expenses, in particular for additions to other provisions.

49 Income Taxes

€ million	2007	2006
Current taxes	35.9	74.9
of which off-period	0.0	3.0
Deferred taxes from the change in limited valuation differences	42.4	0.0
Deferred taxes from changes to the tax rates	-14.9	0.0
Total	**63.4**	**74.9**

The corporation tax rate was unchanged at 26.4% in 2007 as well. Taking trade income tax into account, combined taxes on income for 2007 are unchanged at 40.4%.

In contrast, we had to use the lower tax rate (as a result of the 2008 corporate tax reform) for the purpose of calculating deferred taxes. The reform results in a corporate tax rate of 15.8% as of 1 January 2008 and combined taxes on income of 32.0%. The reduced tax expenses (having taken the 2008 corporate tax reform into consideration) amounts to €14.9 million in the year under report.

Income subject to Luxembourg taxation is taxed at an unchanged rate of 29.6%.

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

€ million	2007	2006
Profit before taxes	207.8	189.5
Income tax (%)	40.4	40.4
Derived income tax on profit before taxes	**84.0**	**76.5**
Deferred tax effect from changes to the tax rates	-14.9	0.0
Tax rate differential on income proportions subject to taxation outside of Germany	-3.5	-2.4
Effect from tax-exempt income and non-tax deductible expenses in accordance with section 8 b KStG	-3.3	-6.3
Taxes for previous years	0.0	3.0
Miscellaneous	1.1	4.1
Reported income taxes	**63.4**	**74.9**

50 Calculation of Operating Profit

€ million	2007	2006	Change € million	in %
Interest income	448.4	285.1	163.3	57.3
Interest expenses	338.4	196.5	141.9	72.2
Net interest income	110.0	88.6	21.4	24.2
Net loan impairment and other credit risk provisions	-3.5	-5.2	1.7	-32.7
Net interest income after loan provisions	113.5	93.8	19.7	21.0
Share of profit in associates	6.4	2.5	3.9	> 100.0
Fee income	620.7	520.4	100.3	19.3
Fee expenses	302.6	238.6	64.0	26.8
Net fee income	318.1	281.8	36.3	12.9
Net trading income	100.1	104.0	-3.9	-3.8
Staff expenses	203.3	189.7	13.6	7.2
Other administrative expenses	130.1	108.9	21.2	19.5
Administrative expenses	333.4	298.6	34.8	11.7
Net other operating profit/expenses	1.3	-1.0	2.3	> 100.0
Operating profit	**206.0**	**182.5**	**23.5**	**12.9**
Net income from financial assets	1.9	6.5	-4.6	-70.8
Other net income	-0.1	0.5	-0.6	> 100.0
Profit before taxes	**207.8**	**189.5**	**18.3**	**9.7**
Income taxes	63.4	74.9	-11.5	-15.4
Net profit for the year	**144.4**	**114.6**	**29.8**	**26.0**

Operating profit includes the operating profit and operating expenses posted under Net Other Income/Expenses (Note 48). A breakdown of operating profit by business segment is shown in Segment Reporting (Note 53).

51 Income Statement by Measurement Category

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

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

Measurement category 31 December 2006 € million	Loans and receivables	Other financial instruments	Held-for-trading	Available-for-sale portfolio	Other financial liabilities	Other	Total
Net interest income							
Interest income	218.5	4.9		61.7			285.1
Interest expenses					-196.5		-196.5
Net fee income							
Fee income	5.2					515.2	520.4
Fee expenses	-1.4					-237.2	-238.6
Net trading income			104.0				104.0
Net income from financial assets			1.6	6.0			7.6
Impairments							
Net loan impairment provisions	3.0					2.2	5.2
Net income from financial assets				-1.1			-1.1
Total	**225.3**	**4.9**	**105.6**	**66.6**	**-196.5**	**280.2**	**486.1**

Other Disclosures

52 Notes to the Cash Flow Statement

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

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities. The payment flows of the operating activities are classified according to the definition of operating profit. This comprises the sum of net interest income, net fee income, the at-equity result, net trading income and the balance of other operating income and expenses, minus total administrative expenses and 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, the change 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 €332.3 million (2006: 436.3 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rate changes were to be taken into consideration.

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

Consolidated net profit for the year of €144.4 million (2006: €114.6 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 €129.0 million (2006: €180.1 million). The cash flows from operating activities also take into account changes in funds employed in operations.

Cash Flows from Investing Activities
Spending on the acquisition of property, plant and equipment totalled €131.3 million in the 2007 financial year (2006: €15.2 million), accounted for in particular by the purchase of a property in Brisbane, Australia, which should be marketed within the framework of a property fund. The sale of property, plant and equipment realised €1.0 million (€2006: 1.4 million) for the Group. In the 2007 financial year, the sale and purchase of equity-linked financial investment instruments realised a net outgoing payment of €15 million (2006: €-0.9 million).

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

53 Segment Reporting

The IAS 14 segment 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 segment 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 segment 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 business 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 as well as Family Office services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

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

Global Markets
Our Global Markets 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 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 will also report the earnings contributions achieved from securities processing for financial services providers. It also includes adjustments to the consolidated results.

Segment reporting by business division for 2006 and 2007 is as follows:

€ million	Year	Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income	2007	14.1	40.1	3.9	3.4	48.5	110.0
	2006	11.7	32.7	1.8	3.7	38.7	88.6
Net loan impairment and other credit risk provisions	2007	1.1	5.2	0.5	0.1	-10.4	-3.5
	2006	1.0	4.7	0.2	0.0	-11.1	-5.2
Net interest income after loan impairment and other credit risk provisions	2007	13.0	34.9	3.4	3.3	58.9	113.5
	2006	10.7	28.0	1.6	3.7	49.8	93.8
Share of profit in associates	2007					6.4	6.4
	2006					2.5	2.5
Net fee income	2007	91.9	82.7	141.2	13.3	-11.0	318.1
	2006	80.2	77.6	122.6	7.2	-5.8	281.8
Net trading income	2007		-0.2	-1.9	98.2	4.0	100.1
	2006		-0.4	4.3	88.4	11.7	104.0
Income after impairment and other credit risk provisions	2007	104.9	117.4	142.7	114.8	58.3	538.1
	2006	90.9	105.2	128.5	99.3	58.2	482.1
Administrative expenses	2007	62.7	71.3	83.6	50.3	65.5	333.4
	2006	53.9	63.5	72.2	42.7	66.3	298.6
Net other operating profit/ expenses	2007					1.3	1.3
	2006					-1.0	-1.0
Operating profit	**2007**	**42.2**	**46.1**	**59.1**	**64.5**	**-5.9**	**206.0**
	2006	**37.0**	**41.7**	**56.3**	**56.6**	**-9.1**	**182.5**
Net income from financial assets	2007					1.9	1.9
	2006					6.5	6.5
Other net income	2007					-0.1	-0.1
	2006					0.5	0.5
Profit before taxes	2007	42.2	46.1	59.1	64.5	-4.1	207.8
	2006	37.0	41.7	56.3	56.6	-2.1	189.5
% change on previous year		**14.1**	**10.6**	**5.0**	**14.0**		**9.7**

As seen in the previous two years, all four segments of the Bank succeeded in further expanding their year-on-year results in 2007. This development is particularly gratifying against the backdrop of the subprime crisis on the credit and financial markets.

The Private Banking segment was particularly successful, recording the highest percentage improvement in results. The significant growth in the volume of private clients under management, including our clients' current account balances, led to a considerable year-on-year rise in income earned in the securities business with equities and bonds, as well as in net interest income.

Net interest income from the deposit-taking business also rose in the Corporate Client business, whilst continuing margin pressure resulted in the stagnation of the contribution from the credit business, despite increased volume. We also achieved a significant increase in fee income in our Corporate Client business, especially in corporate finance transactions.

Of all four segments, the Institutional Clients segment made the greatest contribution to the Bank's results; this segment benefited in particular from the highly successful asset management and equities business. Within this context, the share of products the Bank procures from HSBC Group is rising steadily.

The result from the Global Markets business also developed very favourably. In addition to the particularly successful equity derivatives trading business, money market and foreign exchange trading also posted considerable increases in income, while equity and fixed-income trading was unable to repeat the high level of income achieved the year before. The issue of retail products, such as warrants and certificates, within the scope of our market retail derivatives contributed substantially to this very successful business performance.

One of the key reasons behind the sharp rise in administrative expenses across the entire Bank compared with the previous year was the higher costs brought about by the considerable increase in staff levels, which was fundamentally necessary for our expansive business development. There were also the effects of the new regulatory requirements such as the implementation of MiFID and Basel II, and the expansion of information technology. Similarly, the increase in revenues resulted in higher provisions for performance-related remuneration.

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

	Year	Private Banking	Corporate Clients	Institutional Clients	Global Markets	Central Divisions/ Con-solidation	Total	Adjust-ments	Values as at balance sheet date
Cost:income ratio in %	2007	59.2	58.2	58.4	43.8		62.0		62.0
	2006	58.7	57.8	56.1	43.0		61.8		61.8
Assets* in € million	2007	722.0	2,385.0	1,318.0	4,210.5	11,195.3	19,830.8	1,236.1	21,066.9
	2006	721.0	1,861.0	1,150.7	4,540.1	8,200.5	16,473.3	2,203.1	18,676.4
Liabilities* in € million	2007	3,880.0	3,233.0	1,359.4	1,725.4	8,448.2	18,646.0	668.3	19,314.3
	2006	2,803.0	3,001.0	1,069.3	1,968.0	6,648.6	15,489.9	1,577.6	17,066.7
Items for mandatory inclusion* in € million	2007	494.7	3,216.6	616.5	684.4	4,236.8	9,249.0	357.0	9,606.0
	2006	469.7	2,542.6	514.5	642.9	3,811.3	7,981.0	413.0	8,394.0
Attributable shareholders' equity* in € million	2007	129.6	347.3	139.3	144.8	96.8	857.8	107.3	965.1
	2006	139.2	258.1	98.3	95.2	76.6	667.4	217.5	884.9
Staff	2007	207	198	204	95	1,124	1,828		1,828
	2006	193	180	202	77	967	1,619		1,619
Return on equity before taxes (%)	2007	32.6	13.3	42.4	44.6		24.2		
	2006	30.2	14.5	44.6	41.5		23.9		

*Annual average

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

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

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

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

The rise in loans and advances to customers in the Corporate Clients and Institutional Clients segments was accompanied by the expansion of their items for mandatory inclusion. We saw a slight increase in the items for mandatory inclusion in Private Banking and Global Markets.

However, in line with the development of operating profit, the return on equity in Global Markets and Private Banking improved further. The return on equity in the Institutional Clients and Corporate Clients segments was down slightly.

The secondary segment 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	Year	Germany	Luxembourg	Remainder	Consolidation	Total
Net interest income	2007	95.7	14.2	0.1		110.0
	2006	78.9	9.7	0.0		88.6
Loan impairment and other credit risk provisions	2007	-1.3	-2.2			-3.5
	2006	-6.0	0.8			-5.2
Share of profit in associates	2007	6.4				6.4
	2006	2.5				2.5
Net fee income	2007	289.0	24.9	4.2		318.1
	2006	257.8	21.0	3.0		281.8
Net trading income	2007	97.7	2.4			100.1
	2006	100.1	3.9			104.0
Administrative expenses	2007	314.9	17.7	0.8		333.4
	2006	282.1	15.7	0.8		298.6
Profit before taxes	2007	177.4	26.9	3.5		207.8
	2006	169.3	17.9	2.3		189.5
Cost:income ratio in %	2007	64.1	41.7	17.9		62.0
	2006	63.3	45.6	24.8		61.8
Items for mandatory inclusion	31.12.2007	9,225.0	676.0	0.0	-295.0	9,606.0
	31.12.2006	8,077.0	627.0	1.0	-311.0	8,394.0
Total assets	31.12.2007	19,549.8	2,110.1	3.8	-596.8	21,066.9
	31.12.2006	17,217.8	2,164.4	2.6	-708.4	18,676.4

54 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 4.

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

€ million	31.12.2007		31.12.2006	
Assets	Book value	Fair value	Book value	Fair value
Other financial instruments	6.5	6.5	33.7	33.7

€ million	31.12.2007		31.12.2006	
Liabilities	Book value	Fair value	Book value	Fair value
Deposits by banks (from the measurement of long-term promissory note loans borrowed)	2,532.7	2,531.8	1,495.7	1,497.2
Customer accounts (from the measurement of long-term promissory note loans borrowed)	10,283.2	10,278.0	8,861.4	8,864.8
Certificated liabilities	10.0	9.4	29.8	29.7
Subordinated capital	458.7	447.2	440.6	444.0
Other financial instruments	47.9	47.9	58.3	58.3

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

€ million	Book value	
	31.12.2007	31.12.2006
Partnerships	19.1	15.6
Holdings in unlisted public limited companies	37.4	25.7
Total	**56.5**	**41.3**

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

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

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

Measurement method	Active market	Internal model with		Measured at cost	Total
31 December 2006 in € million		observed parameters	unobservable parameters		
Trading assets	1,658.0	7,386.0	0.0	0.0	9,044.0
Financial assets	528.0	868.3	0.0	41.3	1,437.6
Trading liabilities	479.3	6,195.5	8.8	0.0	6,683.6

The effect on earnings from the transactions calculated with internal models using unobservable parameters amounted to €1.5 million (2006: €2.5 million). A 25% change in the unobservable parameters would lead to a €0.3 million (2006: €0.3 million) change in the market value.

55 Day-1 Profit or Loss*

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

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

€ million	2007	2006
As at 1 January	**5.0**	**7.5**
New business	2.1	2.5
Day-1 profit or loss recognised in the income statement	-3.6	-5.0
of which positions closed out	-3.6	-4.5
of which matured transactions	0.0	-0.5
of which observable market parameters	0.0	0.0
As at 31 December	**3.5**	**5.0**

* A day-1 profit or loss occurs when the price paid for financial assets not traded on an active market (and hence the fair price at the time of initial measurement) is not identical to the fair value calculated by means of a measurement model within the scope of the subsequent measurement.

56 Holdings in Foreign Currency

As at 31 December 2007, assets denominated in a foreign currency were valued at €2,554.7 million (2006: €2,560.9 million) and the corresponding liabilities at €2,475.4 million (2006: €2,599.1 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

57 Derivatives Business

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

Breakdown of the derivatives business by nominal amount:

€ million		Nominal amounts with a residual term of			Nominal amounts	Nominal amounts
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2007	Total 2006
OTC products	FRAs	260	3	0	263	5
	Interest-rate swaps	5,155	12,115	9,802	27,072	27,520
	Interest-rate options–purchases	1,977	3,227	3,974	9,178	11,721
	Interest-rate options–sales	766	3,067	4,598	8,431	11,406
	Forward transactions	319	0	0	319	572
Exchange-listed products	Interest-rate futures	2,826	973	0	3,799	5,503
	Interest-rate options	0	0	66	66	0
Interest-based transactions		**11,303**	**19,385**	**18,440**	**49,128**	**56,727**
OTC products	Foreign exchange forwards	23,115	1,500	43	24,658	24,113
	Cross-currency swaps	305	38	55	398	215
	Foreign exchange options–purchases	2,285	475	0	2,760	2,132
	Foreign exchange options–sales	1,835	373	0	2,208	1,738
Exchange-listed products	Currency futures	2	0	0	2	15
Foreign-exchange-based transactions		**27,542**	**2,386**	**98**	**30,026**	**28,213**
OTC products	Equity/index options–purchases	154	249	204	607	205
	Equity/index options–sales	128	43	18	189	27
Exchange-listed products	Equity/index futures	1,122	0	0	1,122	950
	Equity/index options	5,548	3,385	78	9,011	10,450
Equity/index-based transactions		**6,952**	**3,677**	**300**	**10,929**	**11,632**
OTC products	Credit default swaps–purchases	0	0	0	0	20
	Credit default swaps–sales	0	0	0	0	20
Credit derivatives		**0**	**0**	**0**	**0**	**40**
Total financial derivatives		**45,797**	**25,448**	**18,838**	**90,083**	**96,612**

Breakdown of the derivatives business by market value

€ million		Positive market value with a residual term of			Positive market value		Negative market value	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2007	Total 2006	Total 2007	Total 2006
OTC products	FRAs	0	0	0	0	0	0	0
	Interest-rate swaps	147	27	259	433	547	399	563
	Interest-rate options–purchases	24	5	149	178	345	0	0
	Interest-rate options–sales	0	0	0	0	0	199	344
	Forward transactions	0	3	0	3	0	3	0
Interest-based transactions		**171**	**35**	**408**	**614**	**892**	**601**	**907**
OTC products	Foreign exchange forwards	32	444	1	477	289	474	290
	Cross-currency swaps	1	3	3	7	3	9	5
	Foreign exchange options–purchases	27	121	0	148	72	0	0
	Foreign exchange options–sales	0	0	0	0	0	117	41
Foreign exchange-based transactions		**60**	**568**	**4**	**632**	**364**	**600**	**336**
OTC products	Equity/index options–purchases	14	26	26	66	69	0	0
	Equity/index options–sales	0	0	0	0	0	60	56
Equity/index-based transactions		**14**	**26**	**26**	**66**	**69**	**60**	**56**
OTC products	Credit default swaps–purchases	0	0	0	0	1	0	0
	Credit default swaps–sales	0	0	0	0	0	0	1
Credit derivatives		**0**	**0**	**0**	**0**	**1**	**0**	**1**
Total financial derivatives		**245**	**629**	**438**	**1,312**	**1,326**	**1,261**	**1,300**

58 Contingent Liabilities and Other Obligations

€ million	31.12.2007	31.12.2006
Contingent liabilities on guarantees and indemnity agreements	1,617.2	1,581.2
Irrevocable loan commitments	3,704.3	3,701.1
Total	**5,321.5**	**5,282.3**

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 Liquiditätskonsortialbank GmbH was also unchanged, at €3.7 million. In addition, we bear a proportional contingent liability for fulfilling the funding obligations of other partners in the Association of German Banks (Bundesverband deutscher Banken e.V.).

On 1 January 2008, HSBC Trinkaus & Burkhardt AG acquired 49% of the capital of International Transaction Services GmbH (ITS).

In 2007, HSBC Trinkaus & Burkhardt AG acquired a stake of €3.4 million in HSBC NF China Real Estate GmbH & Co. KG. A capital contribution of €2.1 million is still outstanding.

Commitments arising from leasing and rental contracts totalled €35.4 million (2006: €35.7 million) as at the balance sheet date.

€ million	31.12.2007	31.12.2006
Up to 1 year	18.6	21.4
including leasing	4.6	8.6
Over 1 year up to 5 years	13.3	12.6
including leasing	4.9	4.6
Over 5 years	3.5	1.7
including leasing	0.0	0.0
Total commitments arising from leasing and rental contracts	**35.4**	**35.7**

59 Assets Pledged as Collateral

Securities with a nominal value of €862.6 million (2006: €503.3 million) were deposited as collateral for transactions on Eurex and for securities lending operations(cf. Note 30). Debt instruments with a nominal value of €1,767.0 million (€1,878.3 million) were available for use as collateral for peak funding facilities on the balance sheet date.

60 Trust Activities

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

€ million	31.12.2007	31.12.2006
Trust assets	**373.1**	**374.1**
Loans and advances to banks	146.0	3.5
Loans and advances to customers	123.6	250.4
Trust equity holdings	103.5	120.2
Trust liabilities	**373.1**	**374.1**
Deposits by banks	3.4	4.5
Customer accounts	369.7	369.6

61 Participating Interests

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

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € thousand	Net income for 2007 in € thousand
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	41,807
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	81,772	17,444
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	436	2,848
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	18,509	3,009
International Transaction Services GmbH*	Düsseldorf	51.0	19,771	4,771
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	-94
HSBC Investments Deutschland GmbH	Düsseldorf	100.0	5,001	15,351
HSBC Trinkaus Investment Managers SA	Luxembourg	100.0	4,402	949
Deutscher Pension Trust GmbH	Düsseldorf	100.0	25	-7
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	-6,227
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	-2,137
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	32	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	61	5
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	58	5
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	62	5
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	24	-1
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	24	-1

*accounted for at equity

Entity	Registered office	Percentage share of issued share capital	Equity held in the company in € thousand	Net income for 2007 in € thousand
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	2,557
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	2,165	2,094
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	9
Trinkaus Canada 1 GP Ltd.	Toronto	100.0	3	1
Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH & Co. KG	Düsseldorf	100.0	60	0
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	11,957	256
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	6,872	294
Dr. Helfer Verwaltungsgebäude Luxemburg KG	Düsseldorf	100.0	767	280
Other companies				
HSBC Bond Portfolio GmbH	Frankfurt am Main	100.0	54	4
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	6,037	1
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	29	3
SINO AG*	Düsseldorf	26.6	5,580	2,992

*consolidated at equity. The shareholding was increased from 15.1% to 26.6% during the year under report.

62 Letter of Comfort

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

63 Staff

Annual average	2007	2006
Staff employed abroad	138	130
Staff employed in Germany	1,599	1,446
Total (including trainees)	**1,737**	**1,576**
of which:		
female members of staff	762	694
male members of staff	975	882

64 Auditors' Fees

The following fees for the auditors of the consolidated accounts, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, including expenses and turnover tax, were reported as expenses:

€ million	2007	2006
Audits	0.8	0.7
Other audit or valuation services	0.2	0.1
Tax advisory services	0.0	0.0
Other services	0.2	0.3
Total	**1.2**	**1.1**

65 Business Relationships with Companies and Pensions defined as Related Parties

In accordance with our "best of both worlds" strategy, we continued to expand our business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are carried out at market prices and are usually unsecured. On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. These are also concluded under normal market conditions.

Overall, the consolidated income statement includes €265.3 million (2006: 150.2 million) in income and €37.7 million (2006: €21.8 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. Income includes interest income of €207.2 million (2006: €96.5 million). This increase is due to the large surpluses of liquidity loaned by the Bank to other units of the HSBC Group owing to the subprime crisis.

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

	Affiliated companies		Associated companies		Interests in associates	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Loans and advances to banks	2,442.7	919.6	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	91.1	26.7	31.4	35.4
Total	**2,442.7**	**919.6**	**91.1**	**26.7**	**31.4**	**35.4**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies		Interests in associates	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Deposits by banks	857.4	813.1	0.0	0.0	0.0	0.0
Customer accounts	1.8	1.5	4.5	5.5	25.8	12.2
Total	**859.2**	**814.6**	**4.5**	**5.5**	**25.8**	**12.2**

Assets/liabilities held for trading include the following amounts:

	Securities		Derivatives	
€ million	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Trading assets	4,253.1	1,930.1	792.6	606.3
Trading liabilities	0.0	0.0	417.4	360.6

Compensation of the Executive Bodies

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

€ thousand	2007
Fixed remuneration	2,112.5
Variable remuneration	8,466.8
Share-based payments	1,000.0
Other remuneration*	96.6
Total remuneration	**11,675.9**

*Other remuneration comprises mainly remuneration paid for the assumption of Supervisory Board offices within the Group, use of a company car, insurance premiums plus other valuable benefits that must be taxed individually.

The performance-related components for 2007 were paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The cash component is taken into account in the table. The share component will be paid in three equal amounts from 2009 to 2011, subject to continued service for the Bank.

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

Provisions totalling €10.2 million (2006: €10.9 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 17 June 2008, the compensation of the Supervisory Board for 2007 will be €1,180,463.69 (2006: €1,064,831.62). The members of the Board of Directors received compensation totalling €323,100.00 (2006: €208,505.00). Furthermore, fees were paid to four members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled €193,203.88 (2006: €201,278.88). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents totalled €4.5 million (2006: €4.5 million). Provisions totalling €44.1 million (2006: €49.6 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

None of the Management Board members acquired shares in HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 66. Minor use was made of this right.

As in the previous year, there were no loans and advances to Members of the Management Board and the Supervisory Board. Similarly, there were no contingent liabilities with respect to third parties in favour of members of executive bodies.

66 Share Option Scheme

Breakdown of the share option scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.2007	Number of option rights 31.12.2006
SAYE 2003 (3Y/5Y)	01.08.2003	2.8143/2.8944	7.68	64,804	68,369
SAYE 2004 (3Y/5Y)	01.08.2004	2.9064/3.2060	9.75	26,645	93,664
SAYE 2005 (3Y/5Y)	01.08.2005	2.9518/2.9952	9.66	148,522	159,400
SAYE 2006 (1Y/3Y/5Y)	01.08.2006	2.5400/2.6000/2.6700	11.01	74,929	100,769
SAYE 2007 (1Y/3Y/5Y)	01.08.2007	2.9900/2.9000/2.8200	10.42	174,097	–
Aggregate				**488,997**	**422,202**

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The anticipated term of the option depends on the behaviour of the option holder, which is integrated in the option model. Historical values are also taken into consideration in this context. The share options are generally exercised by staff on 1 August of the financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

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

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 1.1.2007	SAYE 2003-2006	422,202	9.68
Granted in the course of the year	SAYE 2007	174,097	10.42
Exercised in the course of the year	SAYE 2004 (3Y)/ SAYE 2006 (1Y)	83,108	10.04
Forfeited in the course of the year	SAYE 2003-2007	24,194	9.75
Balance as at 31.12.2007	SAYE 2003-2007	488,997	9.88
of which outstanding option rights		488,079	–
of which exercisable option rights		918	–

The staff expenses to be taken into account in the year under report are €0.5 million (2006: €0.4 million).

Breakdown of the share option scheme

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

	Performance-related remuneration in HSBC shares	
	for the 2007 financial year	for the 2006 financial year
Maturing in March 2008	0.0	2.7
Maturing in March 2009	4.6	2.7
Maturing in March 2010	4.6	2.7
Maturing in March 2011	4.7	0.0
Total	**13.9**	**8.1**

The total value of liabilities from share-based payments at the end of the reporting period amounts to €3.4 million (2006: €0.0 million).

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

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

68 Offices held by Members of the Management Board

As of 31 December 2007, the members of the Management Board of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards and comparable management bodies:

Andreas Schmitz: Chairman	
Position	Company
Member of the Supervisory Board	HSBC Investments Deutschland GmbH, Düsseldorf
Deputy Member of the Management 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 i. L., Düsseldorf
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Deputy Chairman of the Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Member of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg
Member of the Advisory Board	RWE 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 Board of Directors	HSBC Trinkaus & Burkhardt (International) SA, Luxembourg
Deputy Chairman of the Board of Directors	HSBC Trinkaus Investment Managers SA, Luxembourg

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

69 Offices held by Other Members of Staff

As of 31 December 2007, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Manfred Krause (Member of the Executive Committee)	
Position	Company
Member of the Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of the Supervisory Board	HSBC Bank Polska SA, Warsaw

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

Gerd Götz	
Position	Company
Member of the Supervisory Board	Sino AG, Düsseldorf
Member of the Supervisory Board	tick-TS AG, Düsseldorf
Member of the Supervisory Board	Kerdos Investment AG m.v.K., Düsseldorf

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

Dr Christiane Marliani	
Position	Company
Member of the Supervisory Board	International Transaction Services GmbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services SA, Luxembourg

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

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

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

Jürgen Werner	
Position	Company
Member of the Supervisory Board	daab GmbH, Cologne

70 Offices held by Supervisory Board Members

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

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

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 am Main
Member of the Supervisory Board	Stihl AG, Waiblingen
Member of the Supervisory Board	Findos Investor Fund I GmbH & Co. KG, Munich
Chairman of the Advisory Board	Aesculap AG & Co.KG, Tuttlingen
Member of the Advisory Board	Stihl Holding AG & Co. KG, Waiblingen
Member of the Board of Trustees	Carl-Zeiss-Stiftung, Heidenheim/Jena
President of the Board of Directors	B. Braun Milano S.p.A., Milan, Italy
Vice President of the Board of Directors	B. Braun Holding AG, Luzern, Switzerland
Vice President of the Board of Directors	B. Braun Medical AG, Luzern, Switzerland
Member of the Board of Directors	B. Braun Medical Inc, Bethlehem, USA
Member of the Board of Directors	B. Braun Medical Industries Sdn. Bhd., Penang, Malaysia
Member of the Board of Directors	B. Braun Medical International S.L., Barcelona, Spain
Member of the Board of Directors	B. Braun Medical SA, Barcelona, Spain
Member of the Board of Directors	B. Braun of America Inc., Bethlehem, USA
Member of the Board of Directors	B. Braun Surgical SA, Barcelona, Spain
Member of the Board of Directors	Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main/Erfurt
Member of the Board of Directors	Wilh. Wehrhahn KG, Neuss

Dr Hans-Michael Gaul	
Position	Company
Member of the Supervisory Board	Allianz Versicherungs-AG, Munich
Member of the Supervisory Board	DKV Deutsche Krankenversicherung AG, Cologne
Member of the Supervisory Board	IVG Immobilien AG, Bonn
Member of the Supervisory Board	Evonik Industries AG, Essen
Member of the Supervisory Board	VNG-Verbundnetz Gas AG, Leipzig
Member of the Supervisory Board	Volkswagen AG, Wolfsburg

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

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

Professor Dr Ulrich Lehner	
Position	Company
Member of the Supervisory Board	E.ON AG, Düsseldorf
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche AG, Stuttgart
Member of the Supervisory Board	Dr. Ing. h.c. F. Porsche S.E., Stuttgart
Member of the Board of Directors	Novartis AG, Basel, Switzerland

Dr Siegfried Jaschinski	
Position	Company
Chairman of the Supervisory Board	LBBW Immobilien GmbH, Stuttgart
Member of the Supervisory Board	Heidelberger Druckmaschinen AG, Heidelberg
Chairman of the Board of Governors	Vereinigung der Baden-Württembergischen Wertpapierbörse e.V., Stuttgart
Chairman of the Board of Directors	LRP Landesbank Rheinland-Pfalz, Mainz
Member of the Board of Directors	DekaBank Deutsche Girozentrale, Frankfurt am Main
Member of the Board of Directors	KfW Kreditanstalt für Wiederaufbau, Frankfurt am Main

71 Publication

The Annual Report will be released for publication on 4 April 2008. The release for publication was approved by the Management Board in its meeting on 18 March 2008.

Düsseldorf, 6 February 2008

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

Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2007. 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 recognised with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not lead to any reservations.

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

Düsseldorf, 13 February 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Signed by Becker	Signed by Kügler
Auditor	Auditor

ANNEX C

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 C-2 through page C-110).

Annual Report 2006

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt

Bank since 1785

Group Management Report

Structure and Management

The Group

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

HSBC Trinkaus & Burkhardt AG

HSBC Trinkaus & Burkhardt (International) SA Luxembourg	**HSBC Trinkaus & 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”.

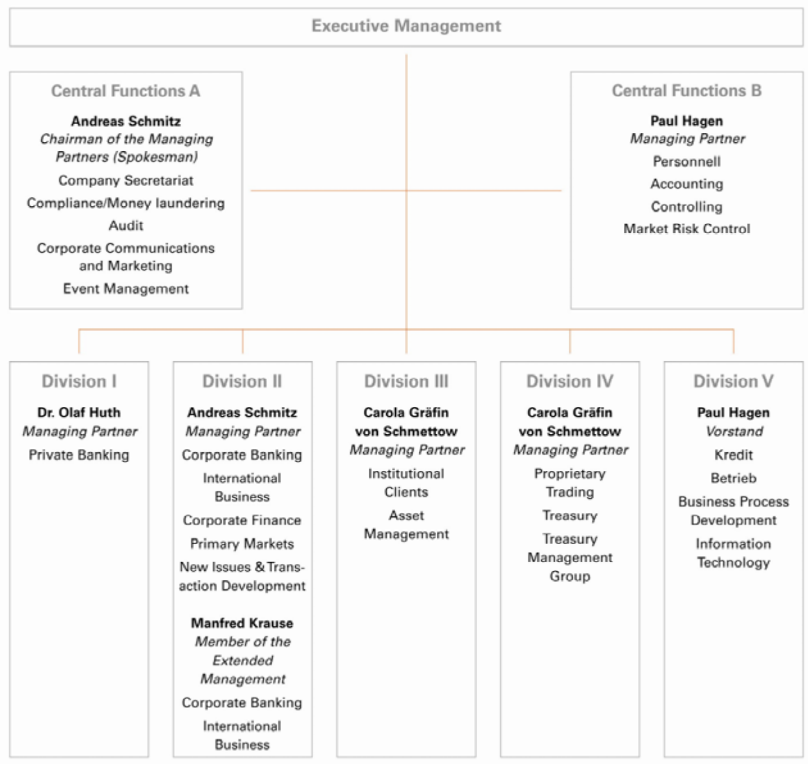
The remuneration of the members of the Supervisory Board is regulated in the Articles of Association of HSBC Trinkaus & Burkhardt AG. Each member of the Supervisory Board receives, in addition to expenses incurred (including VAT), a fixed annual payment of €25,000 and an additional payment of €100.00 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.

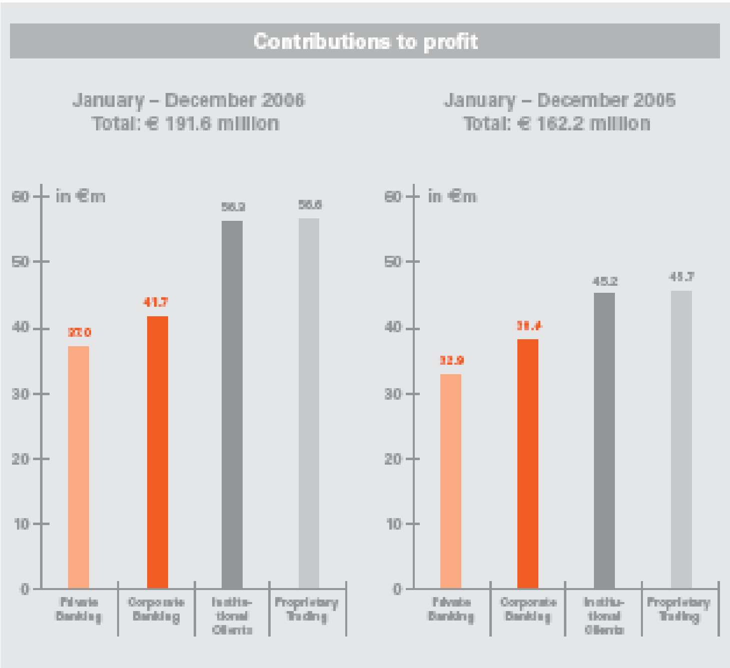
The Business Divisions

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.

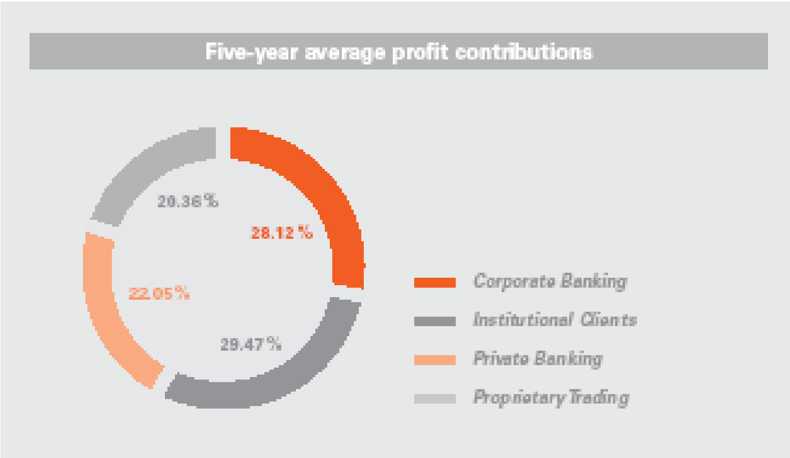


Within the business divisions, individual departments are defined as either profit centres or cost centres. The costs of Division V are mainly apportioned as unit costs to the client-oriented Divisions I, II and III and also to Proprietary Trading.

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

Consolidated Financial Statements

Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

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

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

Consolidated Profit and Loss Account
HSBC Trinkaus & Burkhardt

Profit and Loss Account in € m	(Notes)	2006	2005	Change in € m	Change 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			Nominal amounts	Nominal amounts
		up to 1 year	1 year to 5 years	over 5 years	Total 2006	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

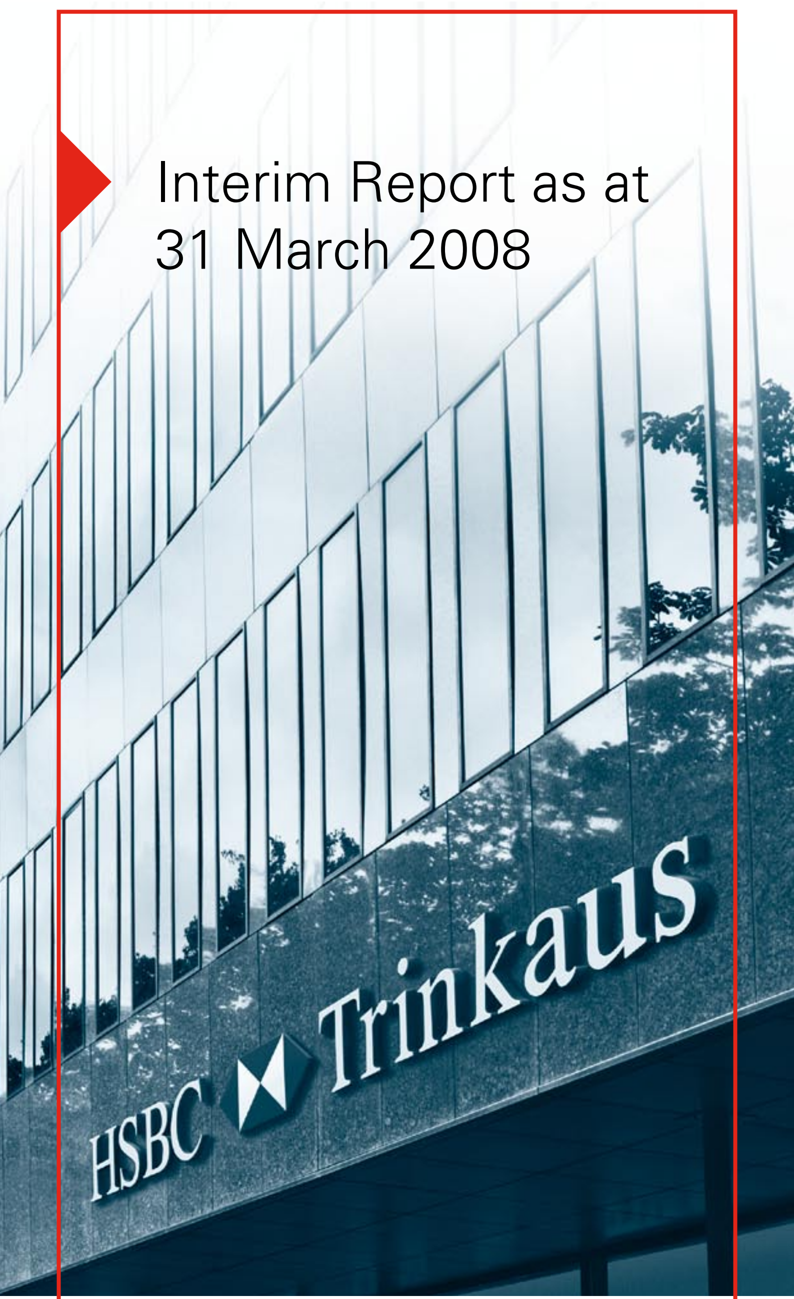
Becker	Kügler
German Public Auditor	German Public Auditor

ANNEX D

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2008

The unaudited interim report of HSBC Trinkaus & Burkhardt Group as of 31 March 2008 is reproduced on the following pages and separately paginated (21 pages, from page D-2 through page D-22).

Interim Report as at 31 March 2008



HSBC Trinkaus

Financial highlights of the HSBC Trinkaus & Burkhardt Group

	1.1.– 31.3.2008	1.1.– 31.3.2007	Change in %
Income statement in € million			
Operating revenues	152.7	149.7	2.0
Net loan impairment and other credit risk provisions	-1.2	0.4	> 100.0
Administrative expenses	99.3	88.6	12.1
Operating profit	52.2	61.5	-15.1
Profit before taxes	51.1	66.7	-23.3
Tax expenses	16.5	25.2	-34.5
Net profit for the period	34.6	41.5	-16.6
Ratios			
Cost:income ratio in %	65.5	57.2	–
Return on equity before tax in % (projected for the year as a whole)	22.2	31.8	–
Net fee income in % of operating revenues	58.9	59.6	–
No. of employees at the reporting date*	2,154	1,925	11.9
Share information			
Average number of shares in circulation in million	26.1	26.1	0.0
Earnings per share in €	1.33	1.59	-16.6
Share price at the reporting date in €	107.0	110.0	-2.7
Market capitalisation at reporting date in € million	2,793	2,871	-2.7

* The number of employees in the first quarter of 2007 also includes the employees of ITS GmbH which has been fully consolidated since the beginning of 2008.

	31.3.2008	31.12.2007	Change in %
Balance sheet figures in € million			
Total assets	21,010.3	21,066.9	-0.3
Shareholders' equity	960.4	968.7	-0.9
Ratios pursuant to German Banking Act			
Tier 1 in € million	613	610	0.5
Capital in € million	1,015	1,030	-1.5
RWAs in € million	8,742	9,606	-9.0
Tier 1 ratio in %	7.0	6.4	–
Capital ratio in %	11.6	10.7	–

Ladies and Gentlemen,

The money and capital markets were hit by further turbulence, some of it severe, in the first quarter of 2008. Despite this difficult market environment, HSBC Trinkaus achieved an operating profit of €52.2 million and net profit for the period of €34.6 million. Although these figures represent declines of 15.1% and 16.6%, respectively, compared to the first three months of 2007, which was a record quarter, they are on a par with the 2006 first quarter result. This is highly satisfactory taking the current market environment into consideration. The full consolidation of our International Transaction Services GmbH (ITS) subsidiary, which provides securities settlement services, resulted in a marked increase in revenues and costs.

Profitability

The individual items of the operating result are summarised below.

- There was a strong increase in net interest income of 38.0% to €28.3 million (2007: €20.5 million). This growth was due predominantly to a higher level of customer deposits which was set against an increase in loans and advances to customers. Overall, this resulted in higher interest income and interest expense.

- Net loan impairment and other credit risk provisions of €1.2 million are attributable mainly to an increase in collectively assessed impairments. HSBC Trinkaus continues to apply its traditionally conservative default risk assessment policy.

- At €90.0 million net fee income remained on the high level of €89.2 million reported for the first quarter of 2007. However, the first-time consolidation of ITS, which contributed €10.7 million to net fee income, has to be taken into consideration here. This contribution from ITS almost compensated the customer restraint in respect of securities transactions and the decline in the issuing and structuring business.

- Net trading income was down by 10.7% to €33.5 million (2007: €37.5 million). Income from equities and equity/index derivatives trading was up by 4.0% on the already excellent Q1 2007 result to €28.5 million, despite weak cash trading. However, there was a decline in the interest product and foreign exchange trading business in the period under review.

- Administrative expenses increased by 12.1% to €99.3 million (2007: €88.6 million) mainly as a result of the first-time consolidation of ITS. Excluding ITS, total administrative expenses came to €90.8 million, a similar level to the first quarter of 2007. The slight 2.5% increase is due mainly to the increase in the number of employees, without taking ITS into consideration. At 65.5%, the cost:income ratio was still at the lower end of the adequate range for our business model of 65% to 70%.

Income taxes were reduced by 34.5% to €16.5 million. In addition to the reduction in profit before taxes, this significant decline is essentially the result of lower domestic tax rates on account of the German corporate tax reform which came into force at the beginning of 2008.

Assets

Total assets amounted to €21.0 billion, which is almost identical to the 2007 year-end figure.

At €960.4 million, shareholders' equity was 0.9% down on the figure at the end of 2007 (€968.7 million). The valuation reserve for financial instruments declined from €76.2 million to €41.0 million due to lower equities, fund and bond prices. These lower prices are also the reason for the increase in actuarial losses of €6.3 million to €18.0 million.

Financial position

The Bank's financial position is still characterised by healthy liquidity. The regulatory requirements were exceeded significantly with the key liquidity ratio in accordance with Principle II of the German Banking Act (Grundsatz II) at an average of 1.65 for the end-of-month positions. Customer accounts are still our main source of refinancing. At €10.0 billion they were only slightly lower compared to the end of 2007. We still invest a substantial portion of this liquidity in the interbank market, giving preference to other HSBC Group companies. The capital ratio according to the German Banking Act (KWG) increased from 10.7% at the end of 2007 to 11.6% at the end of the first quarter of 2008. Since the figures have been calculated according to Basel II since 1 January 2008, they are only comparable to a limited extent.

Forecast

HSBC Trinkaus has held up well in a difficult first quarter 2008. One reason for this is our clear strategic direction which has proven to be an important factor of success in these turbulent times.

The Bank's intrinsic strength gives us every reason to be optimistic about the future. Despite the very high starting base on account of the record result achieved in 2007, HSBC Trinkaus is aiming to sustain this level of performance in 2008. We will be supported in this aim by our further intensive collaboration with the HSBC Group which enables us to offer our customers "The best of both worlds". We intend to expand our market shares within the clearly defined target customer groups of wealthy private clients, corporate clients and institutional clients. However, it will be impossible to achieve this ambitious aim if the money and capital markets are hit by further crises.

Düsseldorf, May 2008
The Management Board

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

This interim report fulfils the requirement of an interim management statement pursuant to section 37x of the German Securities Trading Act (WpHG) and the interim reporting requirements set out in IAS 34.

Consolidated income statement

in € million	Note	1.1.–31.3.2008	1.1.–31.3.2007	Change in %
Interest income		96.6	86.9	11.1
Interest expense		68.3	66.4	2.9
Net interest income	(1)	28.3	20.5	38.0
Net loan impairment and other credit risk provisions	(2)	-1.2	0.4	> 100.0
Share of profit in associates		0.0	1.4	-100.0
Fee income		155.8	168.6	-7.6
Fee expenses		65.8	79.4	-17.1
Net fee income	(3)	90.0	89.2	0.9
Trading profit	(4)	33.5	37.5	-10.7
Administrative expenses	(5)	99.3	88.6	12.1
Net income from financial assets		-1.0	5.2	> -100.0
Net other income/ expenses	(6)	0.8	1.1	-27.3
Profit before taxes		**51.1**	**66.7**	**-23.4**
Tax expenses		16.5	25.2	-34.5
Net profit for the period		**34.6**	**41.5**	**-16.6**

Earnings per share

in €	1.1.–31.3.2008	1.1.–31.3.2007	Change in %
Earnings per share	1.33	1.59	-16.6
Undiluted earnings per share	1.33	1.59	-16.6

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

Consolidated balance sheet

Assets in € million	Note	31.3.2008	31.12.2007	Change in %
Cash reserve		278.9	332.3	-16.1
Loans and advances to banks	(8)	3,789.1	4,117.0	-0.8
Loans and advances to customers	(9)	4,458.9	4,272.9	4.4
Net loan impairment provision	(10)	-17.4	-16.2	7.4
Trading assets	(11)	10,533.9	10,436.8	0.9
Financial assets	(12)	1,531.0	1,568.2	-2.4
Interests in associates		9.7	15.2	-36.2
Property, plant and equipment		195.7	196.3	-0.3
Intangible assets		50.5	12.3	> 100.0
Current taxation recoverable		55.0	54.8	0.4
Other assets		125.0	77.3	61.7
Total assets		**21,010.3**	**21,066.9**	**-0.3**

Liabilities in € million	Note	31.3.2008	31.12.2007	Change in %
Deposits by banks	(13)	2,160.4	2,532.7	-14.7
Customer accounts	(14)	9,979.0	10,283.2	-3.0
Certificated liabilities		10.0	10.0	0.0
Trading liabilities	(15)	7,088.7	6,488.4	9.3
Provisions		121.8	112.4	8.4
Taxation		109.8	106.0	3.6
current		7.9	48.2	-83.6
deferred		101.9	57.8	76.3
Other liabilities		121.5	106.8	13.8
Subordinated capital		458.7	458.7	0.0
Shareholders' equity		960.4	968.7	-0.9
Share capital		70.0	70.0	0.0
Capital reserve		215.5	216.9	-0.6
Retained earnings		456.8	486.7	-6.2
Consolidated profit available for distribution in 2007		–	195.1	–
Profit 1.1.–31.3.2008 incl. profit brought forward		218.1	–	–
Total equity and liabilities		**21,010.3**	**21,066.9**	**-0.3**

Breakdown of consolidated shareholders' equity and subordinated capital

in € million	31.3.2008	31.12.2007
Share capital	70.0	70.0
Capital reserve	215.5	216.9
Retained earnings	456.8	486.7
of which: valuation reserve for financial instruments	41.0	76.2
of which: valuation reserve for actuarial gains and losses	-18.0	-11.7
Net profit including profit brought forward	218.1	195.1
Consolidated shareholders' equity	**960.4**	**968.7**
Subordinated liabilities	322.9	322.9
Participatory capital	135.8	135.8
Consolidated subordinated capital	**458.7**	**458.7**
Total	**1,419.1**	**1,427.4**

Consolidated statement of changes in equity

in € million	2008	2007
Consolidated shareholders' equity as at 1.1.	**968.7**	**884.9**
Distribution	0.0	0.0
Net profit	34.6	41.5
Gains/losses not recognised in the income statement (change in valuation reserves)	-41.5	2.4
Share-based compensation settled in the form of equity instruments	1.0	0.3
Transfer of shares to employees in connection with share-based remuneration schemes	-2.4	0.0
Consolidated shareholders' equity as at 31.3.	**960.4**	**929.1**

Comprehensive income for the period

in € million	1.1.– 31.3.2008	1.1.– 31.3.2007
Net profit for the period	34.6	41.5
Gains/losses not recognised in the income statement	-41.5	2.4
of which from financial instruments	-35.2	2.5
of which from actuarial results	-6.3	-0.1
Total	**-6.9**	**43.9**

Consolidated cash flow statement

in € million	2008	2007
Cash and cash equivalents as at 1.1.	**332.3**	**436.3**
Cash flow from operating activities	-52.8	-198.8
Cash flow from investing activities	-0.6	-1.4
Cash flow from financing activities	0.0	-4.9
Cash and cash equivalents as at 31.3.	**278.9**	**231.2**

The cash flow statement calculated according to the indirect method shows the position and movements in cash and cash equivalents of the HSBC Trinkaus & Burkhardt Group. Reported cash and cash equivalents correspond to the “Cash reserve” balance sheet, which comprises cash in hand plus balances at central banks.

Notes to the consolidated income statement and the consolidated balance sheet

This Interim Report for the HSBC Trinkaus & Burkhardt Group as at 31 March 2008 was drawn up in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. In particular, it satisfies the interim reporting requirements as set out in IAS 34. Furthermore, the report takes into consideration the requirement of an interim management statement pursuant to Section 37x German Securities Trading Act (WpHG). No review of the Interim Report was carried out by external auditors.

When drawing up this Interim Report, including the comparable figures for the prior-year period, with the exception of one standard and one interpretation we applied the same accounting and valuation methods as in the 2007 consolidated financial statements:

IFRS 8, Operating Segments, requires the identification of reportable operating segments based on the "management approach", and its adoption is obligatory for all financial statements that start on or after 1 January 2009. Its early first-time adoption has not led to any material changes.

IFRIC 11, Group and Treasury Share Transactions, deals with how share-based payments granted by the parent company to the employees of a subsidiary are to be recognised in the financial statements of the subsidiary. The interpretation became applicable in the reporting period, and its retrospective application pursuant to IAS 8 led to an increase in shareholders' equity of €3.6 million.

All other changes to standards which we did not apply early have no impact on or are only of minor significance for our consolidated financial statements.

(1) Net interest income

in € million	1.1.– 31.3.2008	1.1.– 31.3.2007
Interest income	**96.6**	**86.9**
From loans and advances to banks	36.8	40.9
Money market transactions	32.8	37.4
Other interest-bearing receivables	4.0	3.5
From loans and advances to customers	46.0	34.0
Money market transactions	13.3	10.9
Other interest-bearing receivables	32.7	23.1
From financial assets	13.8	12.0
Interest income	13.7	11.6
Dividend income	0.0	0.0
Income from subsidiaries	0.1	0.4
Interest expense	**68.3**	**66.4**
From deposits by banks	12.5	6.2
Money market transactions	9.9	4.8
Other interest-bearing deposits	2.6	1.4
From customer accounts	49.8	54.4
Money market transactions	23.7	32.4
Other interest-bearing deposits	26.1	22.0
From securitised receivables	0.1	0.2
From subordinated capital	5.9	5.6
Net interest income	**28.3**	**20.5**

(2) Net loan impairment and other credit risk provisions

in € million	1.1.– 31.3.2008	1.1.– 31.3.2007
Additions	-1.5	-0.5
Reversals	0.3	0.9
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.0	0.0
Total	**-1.2**	**0.4**

(3) Net fee income

in € million	1.1.–31.3.2008	1.1.–31.3.2007
Securities transactions	62.8	56.9
Foreign exchange transactions and derivatives	15.6	14.8
Foreign business	3.3	3.3
Issuing and structuring business	1.4	6.4
Payments	1.4	1.4
Lending	1.1	1.0
Corporate finance	0.2	2.6
Real estate	0.0	0.0
Other fee-based business	4.2	2.8
Total	**90.0**	**89.2**

(4) Net trading income

in € million	1.1.–31.3.2008	1.1.–31.3.2007
Equities and equity/index derivatives	28.5	27.4
Bonds and interest rate derivatives	3.1	6.7
Foreign exchange	1.9	3.4
Total	**33.5**	**37.5**

Interest and dividend income attributable to trading activities – shown as the difference between interest and dividend income from trading activities and the corresponding refinancing interest – is included in net trading income.

(5) Administrative expenses

in € million	1.1.–31.3.2008	1.1.–31.3.2007
Staff expenses	60.9	57.9
Wages and salaries	53.5	51.3
Social security costs	5.4	4.2
Post-employment benefits	2.0	2.4
Other administrative expenses	33.4	27.4
Depreciation of property, plant and equipment and of intangible assets	5.0	3.3
Total	**99.3**	**88.6**

(6) Net other income/expense

in € million	1.1.–31.3.2008	1.1.–31.3.2007
Other operating income	1.4	1.3
Other operating expense	0.5	0.2
Net other operating income and expense	**0.9**	**1.1**
Net other non-operating income	0.0	0.0
Net other non-operating expenses	0.1	0.0
Net other non-operating income and expenses	**-0.1**	**0.0**
Other income	**0.8**	**1.1**

(7) Segment reporting

in € million	Private Banking	Corporate Banking	Institutional Clients	Global Markets	Central Divisions/ Consolidation	Total
Net interest income						
31.3.2008	3.5	10.9	1.0	2.4	10.5	28.3
31.3.2007	3.1	9.1	0.5	3.0	4.8	20.5
Net loan impairment and other credit risk provisions						
31.3.2008	-0.3	-1.9	-0.2	0.0	1.2	-1.2
31.3.2007	-0.4	-1.9	-0.1	0.0	2.8	0.4
Share of profit in associates						
31.3.2008					0.0	0.0
31.3.2007					1.4	1.4
Net fee income						
31.3.2008	23.2	22.8	38.5	0.1	5.4	90.0
31.3.2007	23.6	21.4	38.2	5.3	0.7	89.2
Net trading income						
31.3.2008			0.8	26.1	6.6	33.5
31.3.2007			0.9	33.6	3.0	37.5
Administrative expenses						
31.3.2008	-16.5	-18.7	-23.2	-13.4	-27.5	-99.3
31.3.2007	-15.1	-17.4	-21.2	-15.3	-19.6	-88.6
Net other operating income and expenses						
31.3.2008					0.9	0.9
31.3.2007					1.1	1.1
Operating profit						
31.3.2008	9.9	13.1	16.9	15.2	-2.9	52.2
31.3.2007	11.2	11.2	18.3	26.6	-5.8	61.5
Income from financial assets						
31.3.2008					-1.0	-1.0
31.3.2007					5.2	5.2
Net other non-operating income and expenses						
31.3.2008					-0.1	-0.1
31.3.2007					0.0	0.0
Profit before taxes						
31.3.2008	9.9	13.1	16.9	15.2	-4.0	51.1
31.3.2007	11.2	11.2	18.3	26.6	-0.6	66.7

The client segments gave a varying performance in the first quarter of 2008. The effects of the subprime crisis on the financial markets had little impact on Corporate Banking which was able to improve again on its prior-year result. However, the other two client segments and Global Markets were unable to escape the unfavourable general conditions and could not repeat the extraordinarily positive results recorded in the first quarter of 2007.

In the Corporate Banking segment, net interest income rose as a result of a considerable increase in sight deposits and lending volumes at the same time as an increase in the deposit margin. There was also a substantial increase in net fee income. In the Private Banking segment, revenues generated in other product categories such as Asset Management compensated for the decline in transaction revenues in the securities business due to the restraint shown by many investors in the unfavourable market environment. In the Institutional Banking segment there was a slight increase in revenues as a result of the positive development of the securities, alternative investment and custody business. The further increase in revenues from equity derivatives in the Global Markets segment was not able to compensate for the decline in revenues from equities and structured interest products on account of the market environment.

The substantial increase in revenues and administrative expenses in the Central Divisions and the increase in the Bank's overall costs compared to last year are due mainly to the repurchase of all shares in our securities settlement subsidiary, ITS, at the end of 2007. While consolidated at equity last year, all of ITS' revenue and cost items are reported on a fully consolidated basis this year, also leading to an increase in the Bank's cost:income ratio.

(8) Loans and advances to banks

in € million	31.3.2008	31.12.2007
Current accounts	529.4	722.1
Money market transactions	3,016.6	3,313.5
of which overnight money	400.6	0.4
of which term deposits	2,616.0	3,313.1
Other loans and advances	243.1	81.4
Total	**3,789.1**	**4,117.0**
of which domestic banks	2,517.4	1,382.3
of which foreign banks	1,271.7	2,734.7

(9) Loans and advances to customers

in € million	31.3.2008	31.12.2007
Current account	1,655.5	1,651.1
Money market transactions	1,242.9	1,025.7
of which overnight money	284.8	279.8
of which term deposits	958.1	745.9
Loan accounts	1,527.3	1,562.5
Other loans and advances	33.2	33.6
Total	**4,458.9**	**4,272.9**
of which domestic customers	3,259.0	3,128.9
of which foreign customers	1,199.9	1,144.0

(10) Net loan impairment and other credit risk provisions

in € million	31.3.2008	31.12.2007
Impairment charges/recoveries for loans and advances	17.4	16.2
Other credit risk provisions	7.4	7.5
Net loan impairment and other credit risk provisions	**24.8**	**23.7**

in € million	Impairments and other credit risk provisions: Individually assessed 2008	2007	Collectively assessed 2008	2007	Total 2008	2007
As at 1.1.	19.1	21.7	4.6	6.2	23.7	27.9
Reversals	0.3	0.2	0.0	0.7	0.3	0.9
Utilisation	0.1	0.2	0.0	0.0	0.1	0.2
Additions	0.5	0.5	1.0	0.0	1.5	0.5
Currency translation/ transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.3.	19.2	21.8	5.6	5.5	24.8	27.3

(11) Trading assets

in € million	31.3.2008	31.12.2007
Bonds and other fixed-income securities	6,741.9	6,241.9
Equities and other non-fixed-income securities	365.4	479.4
Tradable receivables	973.1	813.1
Positive market value of derivatives	2,319.5	1,860.6
Reverse repos/securities lending	134.0	1,041.8
Total	10,533.9	10,436.8

(12) Financial assets

in € million	31.3.2008	31.12.2007
Bonds and other fixed-income securities	892.7	886.1
Equities	43.7	41.5
Investments	343.7	383.3
Promissory note loans	158.3	157.2
Interests in subsidiaries	92.6	100.1
Total	1,531.0	1,568.2

(13) Deposits by banks

in € million	31.3.2008	31.12.2007
Current accounts	906.5	611.2
Money market transactions	1,109.0	1,750.3
of which overnight money	370.6	603.2
of which term deposits	738.4	1,147.1
Other liabilities	144.9	171.2
Total	**2,160.4**	**2,532.7**
of which domestic banks	934.0	1,346.5
of which foreign banks	1,226.4	1,186.2

(14) Customer accounts

in € million	31.3.2008	31.12.2007
Current account	5,102.2	5,283.9
Money market transactions	4,398.2	4,523.4
of which overnight money	837.5	607.1
of which term deposits	3,560.7	3,916.3
Savings deposits	12.3	13.2
Other liabilities	466.3	462.7
Total	**9,979.0**	**10,283.2**
of which domestic customers	7,286.8	7,462.8
of which foreign customers	2,692.2	2,820.4

(15) Trading liabilities

in € million	31.3.2008	31.12.2007
Negative market value of derivatives	2,406.0	1,642.0
Discount certificates, promissory note loans, bonds and warrants	4,219.1	4,291.8
Delivery obligations arising from securities sold short	461.0	554.6
Repos/securities lending transactions	2.6	0.0
Total	**7,088.7**	**6,488.4**

Other notes

(16) Derivatives business

in € million	Nominal amounts with a residual maturity of Up to 1 year	1–5 years	Over 5 years	Total	Positive market values
Interest rate transactions					
31.3.2008	11,969	20,286	17,032	49,287	593
31.12.2007	11,303	19,385	18,440	49,128	614
Foreign exchange transactions					
31.3.2008	30,738	2,684	71	33,493	1,114
31.12.2007	27,542	2,386	98	30,026	632
Equity/index transactions					
31.3.2008	7,468	4,394	229	12,091	37
31.12.2007	6,952	3,677	300	10,929	66
Total					
31.3.2008	**50,175**	**27,364**	**17,332**	**94,871**	**1,744**
31.12.2007	**45,797**	**25,448**	**18,838**	**90,083**	**1,312**

Transactions with both positive and negative market values are taken into account in the determination of the nominal amounts. The stated positive market values of transactions represent the replacement values that may arise in the event of the default of all OTC counterparties, regardless of their individual credit rating. The values consist of current interest, foreign currency and equity/index-related transactions which include a settlement risk as well as corresponding market price risks. Netting agreements are not taken into account. As there is no counterparty risk on exchange-traded products and short positions, the market values of these products are not shown. In the derivatives business there are significant concentrations with respect to the HSBC Group due to the close cooperation in the Global Markets segment.

(17) Market risk

in € million	31.3.2008	31.12.2007
Interest-rate-related transactions	7.0	9.2
Equity/index-related business	4.2	3.6
Currency-related transactions	0.6	1.0
Total potential market risk in the trading portfolio	**8.4**	**10.2**

The market risk potential is calculated using a standardised internal model. By taking correlations into consideration the overall market risk potential is lower than the sum of the risks per risk category.

(18) Contingent liabilities and other obligations

in € million	31.3.2008	31.12.2007
Contingent liabilities on guarantees and indemnity agreements	1,486.1	1,617.2
Irrevocable loan commitments	3,883.8	3,704.3
Total	**5,369.9**	**5,321.5**

Key dates

17 June 2008

Annual General Meeting

20 August 2008

Press conference

Interim Report as at 30 June 2008

13 November 2008

Interim Report as at 30 September 2008

NAMES AND ADDRESSES

REGISTERED OFFICE OF THE ISSUER

HSBC Trinkaus & Burkhardt AG
Königsallee 21/23
40212 Düsseldorf
Germany

SIGNATURE PAGE

HSBC Trinkaus & Burkhardt AG

Düsseldorf, 4 August 2008

By: Ulf Starke

By: Marina Eibl