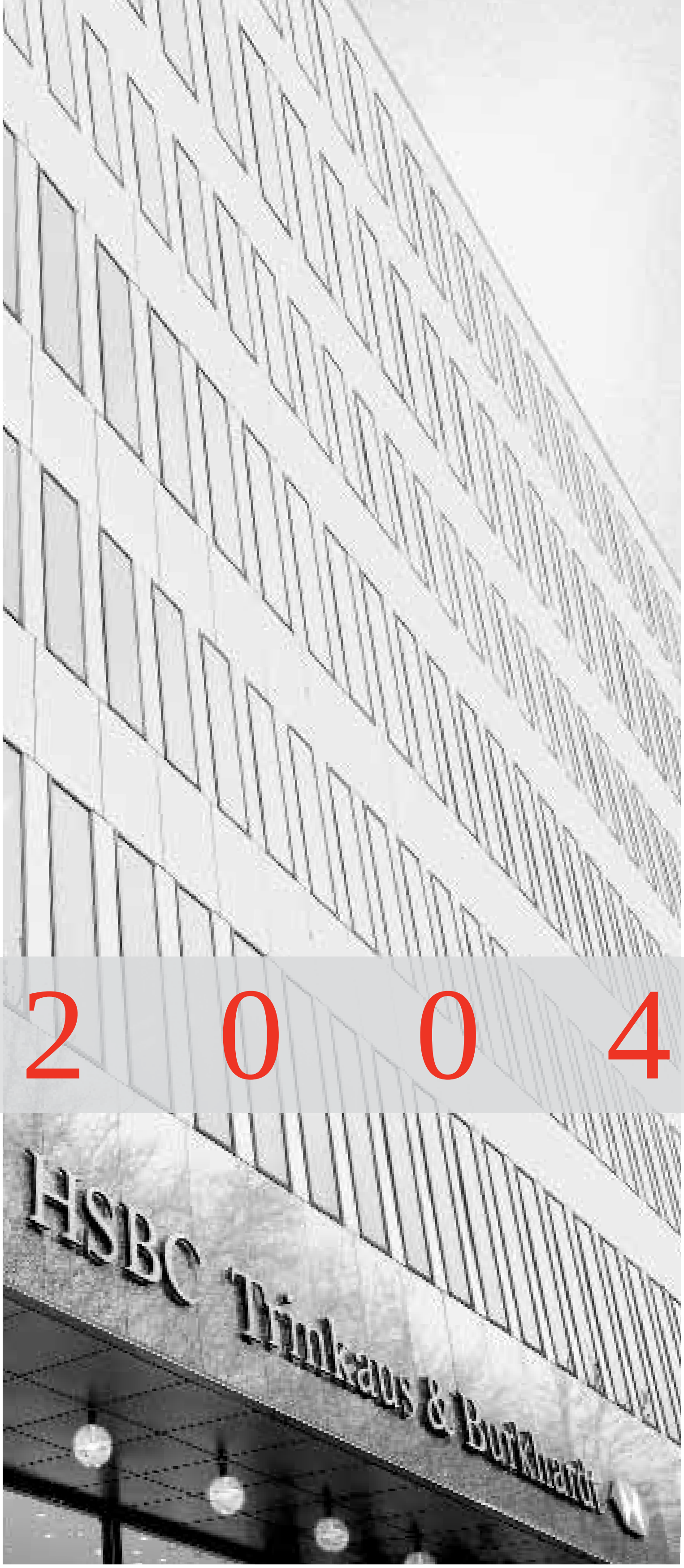
Annual Report



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Financial Highlights of the HSBC Trinkaus & Burkhardt Group

	2004	2003	Change in %
Operating performance in €m			
Operating revenues	353.9	320.7	10.4
Risk provisions	1.6	7.7	- 79.2
Total administrative expenses	250.0	226.9	10.2
Operating profit	102.3	86.1	18.8
Net income before tax	121.5	84.2	44.3
Income tax	43.5	37.3	16.6
Net income	78.0	46.9	66.3
Balance sheet in €m			
Balance sheet total	13,323.1	10,987.7	21.3
Equity capital	802.7	753.7	6.5
Key indicators			
Cost/income ratio for ordinary activities before tax in %	67.0	71.2	-
Return on equity after tax in %	12.5	7.5	-
Ratio of fees and commissions to operating revenues in %	64.0	61.2	-
Assets under management in € billion	41.8	35.4	18.1
Employees	1,621	1,525	6.3
Share information			
Average number of shares in circulation in millions	26.1	26.1	0.0
Dividend per share in €	2.25	1.75	28.6
Earnings per share in €	2.99	1.80	66.1
Share price per 31.12. in €	80.5	80.0	0.6
Market capitalisation in € billion	2.1	2.1	0.0
Key capital ratios according to BIS rules			
Core capital in €m	530	484	9.5
Regulatory capital in €m	821	694	18.3
Mandatory risk items in €m	6,387	6,068	5.3
Core capital ratio in %	9.0	9.1	-
Capital ratio in %	12.9	11.4	-

Annual Report 2004

HSBC Trinkaus & Burkhardt KGaA

HSBC Trinkaus & Burkhardt

Bank since 1785

Contents

Ladies and Gentlemen,

We have attained the goal we set ourselves. In 2004 HSBC Trinkaus & Burkhardt's operating profit rose by 18.8 % to € 102.3 million, a result which may be rated as good. Achieving our target of double-digit growth is all the more pleasing given that we had already registered an unusually high increase in operating profits in 2003.

However, one other component of our success during 2004 is as yet hardly reflected at all in the Bank's financial figures. Seldom in the Bank's brief history has the number of new clients acquired in our three clearly-defined target client segments been so great as in the financial year just ended. If we analyse the reasons for this increase in client numbers, factors playing a major role include the classical virtues of a private bank, such as consistency of client care, the quality of our products and our flat hierarchies. Another vital factor is our membership of the HSBC Group, which like almost no other bank in the world embodies international presence and capital strength. Our mission of offering 'the best of both worlds' allows us to present ourselves, in a difficult market environment for the German banking industry, as being at one and the same time more German than any international bank and more international than any German bank.

Without letting up on our acquisition efforts, in 2005 we aim to focus strongly on developing and strengthening our client relationships in order to achieve the desired revenue growth through improved cross-selling. From niche provider to core bank, that is the order of the day, and in association with the HSBC Group this has been achieved in many cases over the past two years, especially in our dealings with institutional and corporate clients.

We have achieved this operational success in Germany, a country which continues to be dogged by a sluggish economy, ever-growing national debt and high unemployment. Naturally the banking industry is not immune to these economic conditions, although 2004 did see a general relaxation on the risk front. It is acknowledged on all sides that the German banking industry is in pressing need of consolidation. However, not least because of the closed nature of the public sector, this may be longer coming than we thought a year ago. Although many banks have made good progress with the necessary cost reductions, long-term success will be dependent upon major increases in profitability-which will be virtually impossible to achieve given the competitive environment prevailing in Germany. Quite the reverse, in fact: the past 12 months have given rise to fears that the mistakes of the past are being repeated. Profit margins, which are already far too small by international standards, are coming under increasing pressure as a consequence of pricing designed to achieve short-term increases in revenues but which does not adequately reflect levels of risk.

We are making every effort to convince our clients of the many benefits of banking with HSBC Trinkaus & Burkhardt, and to improve client retention via efficient organisation geared to client needs.

In concrete terms, we aim to supplement our private banking product range with additional alternative investment ideas and to continue developing our across-the-board care for family businesses. In the corporate banking field we shall continue our efforts of previous years to focus on the development of foreign business, both through improving our products and through taking on new staff. Building on the great successes of 2004, we shall of course continue to offer our institutional clients high-quality individually-tailored products. Proprietary Trading remains a source of ideas for many fields of banking, and thus also for our clients. As in 2004, the division can be expected to make an important contribution to our results. Over the past few years we have many times demonstrated our efficiency and quality leadership in the field of complex securities settlement projects: the decision at the end of 2004 to transfer securities settlement to a joint venture with Telekom subsidiary T-Systems has laid the structural foundations for further growth in the field of securities services. In so doing, we shall increase our clout and once again put on record the Bank's innovative capabilities.

Based on traditional banking business, we offer our clients sophisticated financial services for the solution of complex problems. This requires targeted, wide-ranging investment in our employees' qualifications and skills, and we will continue to set great store by this factor during the current year.

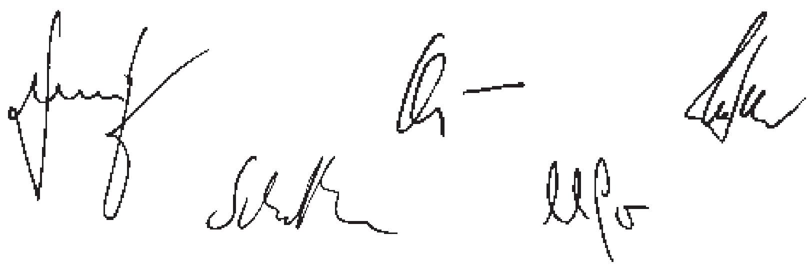
2004 also saw a changing of the guard among the upper echelons of the Bank. Dr. Sieghardt Rometsch and Herr Harold Hörauf have left their posts as Managing Partners and moved to the Supervisory Board, which has elected Dr. Rometsch as its new chairman.

The Bank’s strategy, enhanced by a number of modifications, is based on the tried-and-tested, more than averagely successful business model of previous years. Our clear strategic positioning as at one and the same time a private German bank of tradition and part of the largest European bank (and as such part of one of the world’s leading banking groups) remains a key factor in our wide-ranging effectiveness. The Bank’s fundamental business policies have for decades been characterised by reliability. Our target groups continue to be wealthy private clients, corporate clients and institutional clients. Our aim in 2005 will be to create value for them, and thus ensure their continuing loyalty.

We would like to thank our clients, business associates and employees for their trust and cooperation. We would also like to draw special attention to the commitment of our colleagues in the project teams and in securities settlement. Over the past year they have not only successfully managed the migration of DAB Bank, in so doing elevating our securities settlement business (in terms of numbers of shares) to 3rd place in Germany, but have also laid the foundations for our joint venture with T-Systems International GmbH. For this we all owe them our special thanks.

Yours Sincerely,

The Managing Partners



The Executive Bodies

HSBC Trinkaus & Burkhardt KGaA

Düsseldorf

Baden-Baden · Berlin · Frankfurt am Main · Hamburg · Munich · Stuttgart

Managing Partners

Andreas Schmitz,
Chairman (from 8 June 2004)

Dr. Sieghardt Rometsch,
Chairman (until 8 June 2004)

Paul Hagen

Harold Hörauf
(until 8 June 2004)

Dr. Olaf Huth

Carola Gräfin von Schmettow
(from 8 June 2004)

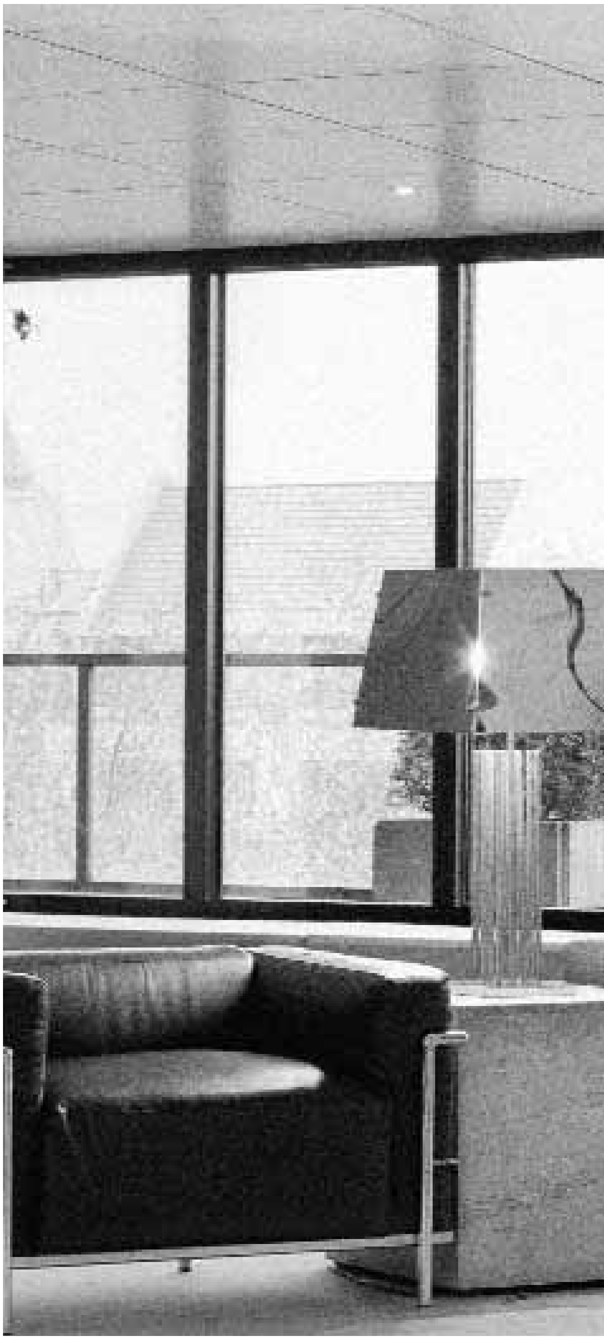
Willi Ufer
(from 8 June 2004 until 31 March 2005)

Members of the Extended Management Group

Manfred Krause

Carola Gräfin von Schmettow
(until 8 June 2004)

Willi Ufer
(until 8 June 2004)



Picture caption (from left to right): Dr. Olaf Huth, Carola Gräfin von Schmettow, Willi Ufer, Paul Hagen, Andreas Schmitz, Manfred Krause

Supervisory Board

Herbert H. Jacobi, Düsseldorf,
Chairman (until 8 June 2004),
Honorary Chairman (from 8 June 2004),
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Dr. Sieghardt Rometsch, Düsseldorf,
Chairman (from 8 June 2004),
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

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

Dr. h. c. Ludwig Georg Braun, Melsungen,
(from 8 June 2004), Chairman of the Management Board,
B. Braun Melsungen AG

Ulrich Eckhoff*, Düsseldorf, Bank employee

Deniz Erkman*, Krefeld, (from 8 June 2004),
Bank employee

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

Friedrich-Karl Goßmann*, Essen,
Bank employee

Birgit Hasenbeck*, Düsseldorf,
Bank employee

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

Harold Hörauf, Düsseldorf, (from 8 June 2004),
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Dr. jur. Otto Graf Lambsdorff, Bonn,
Lawyer

Professor Dr. Ulrich Lehner, Düsseldorf,
(from 8 June 2004), Chairman of the Managing Committee,
Henkel KGaA

* Employees' Representatives

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

Dietmar Sauer, Karlsruhe,
Chairman of the Management Board,
Landesbank Baden-Württemberg

Wolfgang von Waldthausen, Babensham,
(until 8 June 2004),
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Jörn Wölken*, Lohmar,
Bank employee

Shareholders' Committee

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

Charles-Henri Filippi, Paris,
Deputy Chairman,
Chairman and Chief Executive Officer,
CCF S. A.

Stuart Gulliver, London,
(from 8 June 2004), Chief Executive CIBM,
Member of the Group Management Board,
HSBC Holdings plc

Dr. Sieghardt Rometsch, Düsseldorf,
(from 8 June 2004), Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Herbert H. Jacobi, Düsseldorf,
(until 8 June 2004), Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Colin Kirkby, London,
(until 8 June 2004), Chief Operating Officer Group Private Banking,
HSBC Private Bank (UK) Ltd

* Employees' Representatives

Advisory Board

Dr. jur. Otto Graf Lambsdorff, Chairman

Professor Dr. Gerd Assmann,
Director of the Institute for Clinical Chemistry
and Laboratory Medicine, Central Laboratory,
University Hospital Münster

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

Baron Wolf von Buchholtz

Albert H. K. Büll,
Managing Partner,
Büll & Dr. Liedtke GmbH

Walter P. J. Droege,
Chairman of the Management Board,
DIC Deutsche Investors' Capital AG
and Partner DROEGE & COMP. GmbH
International Management Consulting

Heinrich-Johann Essing (from 2005),
Managing Partner,
CHE Grundbesitz und Bauträger GmbH

Dr. Bernhard Freiherr von Falkenhausen
(to end of 2004),
Lawyer

Dr. Ludwig Faßbender

Henning von der Forst (from 2005),
Member of the Management Board,
Nürnberger Versicherungsgruppe

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

Dr. Hans Michael Gaul,
Member of the Management Board, E.ON AG

Professor of law
Professor Dr. Michael Hoffmann-Becking,
Hengeler Mueller Lawyers

Dr. Franz Wilhelm Hopp,
Member of the Management Board,
ERGO Versicherungsgruppe AG

Dr. jur. Edgar Jannott
(to end of 2004), Member of the Supervisory Board,
ERGO Versicherungsgruppe AG

Arthur L. Kelly
(to end of 2004), Managing Partner,
KEL Enterprises L.P.

Professor Dr. A. Stefan Kirsten,
Member of the Management Board,
ThyssenKrupp AG

Dr. Karl-Ludwig Kley (from 2005),
Member of the Management Board, Deutsche Lufthansa AG

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

Professor Dr. Ulrich Lehner
(to end of 2004), Chairman of the Managing Committee,
Henkel KGaA

Professor Dr.-Ing. E. h. Berthold Leibinger,
Managing Partner,
Trumpf GmbH + Co. KG

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

Udo van Meeteren

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

Dr. Klaus von Menges (to end of 2004)

Dr. h. c. Adolf Merckle

Dr. Bernd Michaels (to end of 2004)

Dr. Markus Michalke (from 2005)
Managing Partner, MIC Capital GmbH

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

Klaus Oberwelland,
Managing Partner, August Storck KG

Helmut Paffendorf (to end of 2004)

Hanns A. Pielenz,
Managing Partner,
Amann & Söhne GmbH & Co. KG

Robert Rademacher,
Chairman of the Managing Committee,
Gottfried Schultz GmbH & Co. KG

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

Petra Schadeberg-Herrmann (from 2005),
Partner, Krombacher Brauerei
Bernhard Schadeberg GmbH & Co. KG

Patrick Schwarz-Schütte
(to end of 2004), Chairman of the Management Board,
Schwarz Pharma AG

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

Thomas Unger (from 2005),
Member of the Management Board, Metro AG

Professor Dr.-Ing. Dieter H. Vogel,
Managing Partner,
LGB & Vogel GmbH

Professor Dr. Carl Christian
Freiherr von Weizsäcker,
Professor Emeritus, University of Cologne

Werner Wenning,
Chairman of the Management Board, Bayer AG

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

Gerhard Winkel,
Former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Report of the
Managing Partners

Group Management Report

The Group

The HSBC Trinkaus & Burkhardt Group comprises 15 active companies. The parent company is HSBC Trinkaus & Burkhardt Kommanditgesellschaft auf Aktien (KGaA).

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

HSBC Trinkaus & Burkhardt KGaA

HSBC Trinkaus & Burkhardt (International) SA
Luxemburg

HSBC Trinkaus Investment Management Ltd
Hongkong

HSBC Trinkaus Capital Management GmbH
Düsseldorf

Internationale Kapitalanlagegesellschaft mbH
Düsseldorf

HSBC Trinkaus Investment Managers SA
Luxemburg

HSBC Trinkaus & Burkhardt Immobilien GmbH
Düsseldorf

HSBC Trinkaus Privatimmobilien GmbH
Düsseldorf

HSBC Trinkaus Immobilien Beteiligungs-KG
Düsseldorf

HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH
Düsseldorf

Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH
Düsseldorf

HSBC Trinkaus Private Wealth GmbH
Düsseldorf

Grundstücksgesellschaft Trinkausstraße KG
Düsseldorf

Joachim Hecker Grundbesitz KG
Düsseldorf

Dr. Helfer Verwaltungsgebäude Luxemburg KG
Düsseldorf

The Group is managed as a single entity by the Managing Partners of the KGaA. Supervisory or advisory boards supervise the managing directors of the subsidiaries.

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

The Business Divisions

Independently of their collective responsibility, the five Managing Partners are also assigned individual responsibility for specific business areas and head office functions. In the Extended Management Group the Managing Partners are assisted by Mr. Manfred Krause as a Managing Director. This assignment of responsibilities applies not only to the KGaA and its branches but also to the operations of its subsidiaries.

Executive Management

Central Functions A

Andreas Schmitz
Chairman of the Managing Partners

Company Secretariat
Compliance
Audit

Central Functions B

Paul Hagen
Managing Partner

Accounting
Controlling
Market Risk Control

Central Functions C

Dr. Olaf Huth
Managing Partner

Personnel
Press & Publicity

Division I

Dr Olaf Huth
Managing Partner

Private Banking

Division II

Andreas Schmitz
Managing Partner

Corporate Banking
International Business
Corporate Finance
Primary Markets

Manfred Krause
Member of the Extended Management

Corporate Banking
International Business

Division III

Carola Gräfin von Schmettow
Managing Partner

Institutional Clients
Asset Management

Division IV

Willi Ufer
Managing Partner

Proprietary Trading
Treasury
Treasury Sales

Division V

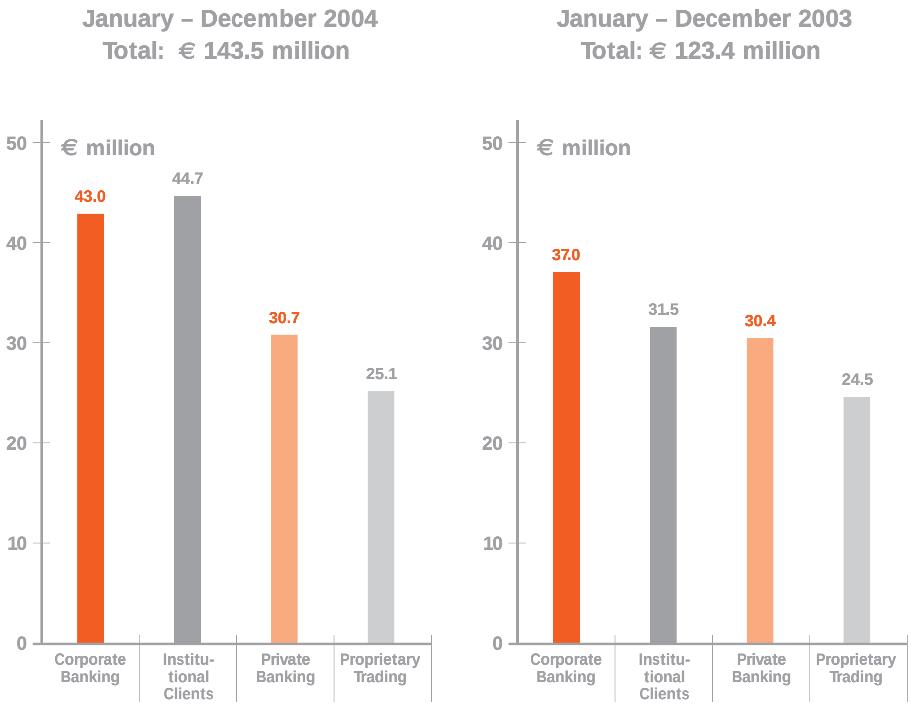
Paul Hagen
Managing Partner

Credit Operations
Business Process Development
Information Technology

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

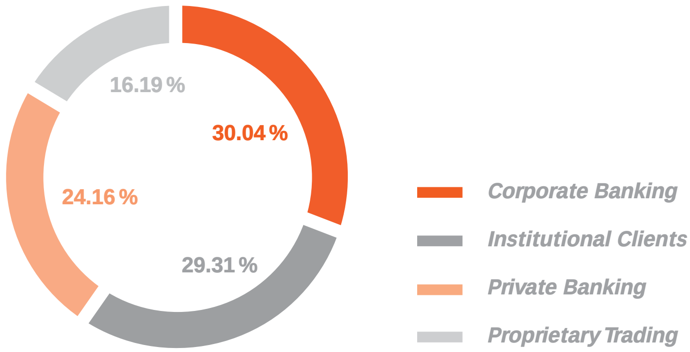
Divisional profits are calculated on the basis of partial cost allocation.

Contributions to profit



After deduction of the € 34.9 million net costs incurred by head office functions during 2004, as against € 37.3 million in 2003, the 2004 operating profit was € 102.3 million (2003: € 86.1 million). The mean contributions to profits over the last five years reveal a very balanced picture:

Five-year average profit contributions



Strategy

On the financial markets the process of concentration continues apace, with corresponding changes to the 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 professional. 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.

We at HSBC Trinkaus & Burkhardt were quick to recognise this development, and early in adapting to it. Building on a solid foundation of traditional banking operations, we focus on offering our clients sophisticated financial services as solutions to complex problems. We are especially strong in the securities and international business, as well as in the fields of portfolio management, interest rate and foreign exchange management, new issues and corporate finance. By continuously updating our information and communication systems, we ensure the most advanced banking technology and services of the highest quality.

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

- We concentrate on the target groups of wealthy private clients, corporate clients and institutional clients.

- Our activities are geared towards optimally meeting the needs of our existing and future clients.

- Financial innovation is our strength, because the application of wide-ranging expertise is the only way to successfully deliver value-added banking.

- We are constantly expanding our range of securities settlement services for other financial institutions. The securities settlement joint venture with T-Systems underlines our ambition to become the best securities settlement bank in Germany.

- We can draw on the resources of one of the largest banks in the world, the HSBC Group.

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

- We must foster long-term relationships with our clients, providing them with the growing number of increasingly complex financial services they require within the framework of the trust born of relationship banking.

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

- We must invest in staff training and qualifications in order to establish our value-added banking in the market place.

- 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 remuneration that is as fair as possible and reflects their true worth.

We firmly believe that this is a realistic strategy for ensuring our long-term future economic success, even in the volatile German financial marketplace.

The 2004 Financial Year

Economic Environment

Last year the world economy grew by about 5 %, the highest figure for almost 30 years. However, in the Federal Republic of Germany, the world's third largest economy, there was little sign of any such dynamism, with growth in 2004 of just 1.6 %, and after adjusting for the higher number of working days in the year, the figure falls to a mere 1.0 %.

The economic upturn meant stronger demand for industrial raw materials, particularly in Asia, and this led to increased prices, particularly for crude oil, which reached its highest level for several years. Initially there were fears that the higher energy prices would endanger price stability, but over the course of the year it became clear that its main effect was as a sustained brake on the economy, particularly as regards private consumption. At the end of the year ten-year bonds were yielding around 4.3 % in the USA and 3.7 % in Germany.

Whereas the ECB retained a base interest rate of 2 % throughout 2004, the US Federal Reserve gradually switched – from mid-2004 onwards – from an expansive to a neutral monetary policy, increasing the interest rate in several stages from 1 % to 2.25 % by December 2004.

At the beginning of 2004 stock market prices rose slightly. However, after the March terrorist attacks in Madrid prices were once again influenced by political tensions, and over the year as a whole the German DAX® share index rose 7.3 %. In contrast to the previous year, until autumn 2004 the US dollar was relatively stable against most of the other major currencies. However, from October onwards the US budgetary and balance of payment deficits once again came to the fore, leading to further falls in the US dollar. As a result the euro (which had touched US$ 1.20 during the third quarter of 2004), rose by the end of the year to US$ 1.36.

Profitability

An 18.8 % rise in operating profit to € 102.3 million means we achieved our principal 2004 financial goal of a double-digit increase in profit with something to spare. On top of this we made an € 18.5 million profit on disposal from the sale of our indirect holding in HSBC Guyerzeller Bank AG, making our total pre-tax net income € 121.5 million, an increase of 44.3 %.

In our most important revenue component, net fees and commissions, we achieved a 15.3 % increase to € 226.4 million over the already favourable figures for the previous year. In this segment we registered particularly strong growth in corporate finance business as a result of our involvement in a very large German M&A transaction which we helped bring to successful fruition. In the securities business we benefited from the slight revival in the capital markets, with a revenue increase of 12 %, registering particularly strong growth in fixed income sales to clients. The successful placement of alternative investments, especially private equity products, led to a sharp rise in other net fees and commissions. However, as only one new property fund was placed during 2004, the excellent 2003 property business result could not be repeated.

The trading profit rose 21.4 % to € 54.4 million, thus surpassing our plan figure by some distance. Particularly successful was the trade in interest rate products, where profits more than doubled from € 6.0 million to € 16.2 million. At € 4.5 million, the currency trading profit registered a welcome rise from € 1.3 million the previous year. As expected, trading in equities and equity derivatives failed to repeat the excellent 2003 result, but with a profit of € 33.7 million, after € 37.5 million the previous year, it remained the most profitable trading segment.

Net interest income fell by 7.6 % to € 69.3 million. This decline was partly due to the loss of revenue resulting from the sale of the associated enterprise HSBC Guyerzeller, but was also the result of falling interest revenues from financial assets due to slightly reduced volumes and further falls in interest rates. In contrast, higher average volumes in our client business led to a slight increase in net interest income there. In sum, interest-bearing business accounted for only 30 % of net fees and commissions, down from 38 % the year before. This is in line with the Bank’s strategy of concentrating on upmarket services, without however neglecting classical credit business. Interest rate margins fell significantly during 2004, particularly those on syndicated loans, to an extent that precludes pricing which takes proper account of risk levels.

Despite the fact that we have unswervingly applied our traditional conservative valuation principles, we were able to reduce risk provisions in relation to our credit business from € 7.7 million to € 1.6 million. This reduction reflects both the improvement in the general economic situation, and the rigorous risk management of our loan portfolio. Meanwhile, we have accounted for the higher mean volume in our credit business by increasing the general bad debt charge.

The 10.2 % rise in administrative expenses to € 250.0 million was according to plan. Firstly, there were increased costs incurred in connection with the assumption of securities settlement for DAB Bank, largely as a result of taking on new staff and increasing our IT capacities. Secondly, it is the result of increases in performance-related remuneration due to our higher profits, as well as the fact that we have taken on new staff and made additional IT infrastructure investments in business areas where we are expecting further increases in revenues over the coming years.

The net balance of other income and expenses, which we do not count towards our operating profit, improved from – € 1.9 million in 2003 to + € 19.2 million in 2004. The chief reason for this improvement was the sale of our indirect holding in HSBC Guyerzeller Bank AG: the figure also contains income realised from the sale of equities and investment funds from our long-term holdings, as well as valuation adjustments on securities and on a building used by the Bank (as a result of expected long-term falls in value). However, these items virtually cancel each other out in the final net balance.

Taxes on income rose 16.6 % to € 43.5 million, the majority of which was domestic German taxation. This represented an overall tax rate of 35.8 %, down from 44.3 % the previous year. This percentage fall was predominantly the result of the sale of our indirect holding in HSBC Guyerzeller Bank AG.

Assets

In 2004 the balance sheet total rose 21.3 % to € 13.3 billion. On the assets side, loans and advances to banks rose 71.1 % to € 2.5 billion, loans and advances to clients by 11.5% to € 2.6 billion, and financial assets held for trading purposes by 24.5 % to € 6.2 billion, while financial assets were reduced 15.0 % to € 1.7 billion. On the liabilities side the chief changes were a rise in customer accounts of 6.4 % to € 5.9 billion, as well as an increase in financial liabilities held for trading by 71.9 % to € 5.0 billion. In contrast, deposits by banks fell 7.6 % to € 0.9 billion.

The changes in both loans and advances to banks and deposits by banks were chiefly due both 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 customer deposits, as many of our clients have for some time responded to the low interest rates and uncertainty on the capital markets by holding on to their money. However, the rise in customer accounts is balance sheet date-related. A second reason for the liquidity situation is the fact that, for some years now, our various trading departments have made a highly significant contribution to Group liquidity through the ever-growing number and diversity of structured issues. The increase in both financial assets and liabilities held for trading purposes resulted from the increased market value of OTC derivatives, especially swaps.

The chief reason for the fall in financial assets was our smaller portfolios of fixed-income securities. As a result of the increased importance of fixed-income trading, our portfolios of fixed-income securities and, even more so, marketable assets held for trading purposes, both grew in size.

As before, the provisions were chiefly to cover company pension obligations and taxes on income.

Financial Position

The Bank’s capital resources far exceed regulatory requirements. This is very apparent from the total capital ratio of 12.5 % and also the core capital ratio of 8.2 %, calculated in accordance with Principle I of the German Banking Act (Kreditwesengesetz ~ KWG). Accordingly no capital measures were undertaken during 2004. All maturing subordinated liabilities were replaced through the issue of new subordinated liabilities, and were increased – exploiting favourable market conditions – by € 33.0 million to € 273.2 million. Furthermore, as a result of higher equity prices, the revaluation reserve for financial instruments rose from € 75.6 million to € 92.3 million.

The Bank’s liquidity also continues to be good. Regulatory requirements were significantly exceeded throughout the year, with the key liquidity ratio in accordance with Principle II of the German Banking Act (Grundsatz II) remaining above 1.4 at all times.

Outlook Assesment

In 2005 the global economy is expected to continue growing strongly, though falling short of 2004's unusually high figure. The chief reasons for this slow down are the change of direction in US monetary policy, the repercussions of the very high oil prices during the second half of 2004, and China's efforts to contain the overheating of its own national economy.

However, for the Eurozone we are expecting modest growth at best, which may even fall short of the 2004 figure, though remaining significantly higher than in 2003. With below-average growth of around one per cent, Germany will once again be among the poorest performers in the Eurozone. This forecast is founded on our expectation that in 2005 neither investments nor individual consumption will rise significantly, and against this background of sluggish growth and an inflation rate around the 2 % mark we do not believe that monetary policy will be tightened in the Eurozone. Furthermore, we are forecasting further falls in the value of the US dollar against the euro by the end of the year, but we do not expect the dollar to nosedive.

In 2005 German banks will once again face major challenges. A combination of modest growth and sluggish consumer spending means that many businesses will continue to suffer falling or stagnating revenues, and this will be reflected in high insolvency figures and unemployment rates. The first few weeks of the new year confirmed these fears, with the unemployment rate rising to over five million and a major insolvency in the construction industry.

However, at HSBC Trinkaus & Burkhardt we are confident that we will once again continue to prosper despite these difficult economic circumstances. In recent years we have steadily improved our market position in all three client segments Private Banking, Corporate Banking and Institutional Clients. The constancy of our strategic direction, coupled with our innovative ideas and the global range of services offered by the HSBC Group, will ensure that we are able to further strengthen our existing client relationships. Accordingly, for 2005 we have set ourselves the goal of using these sound foundations to significantly intensify our business relationships with our clients.

Thanks to the highly successful business developments of 2003 and 2004 our revenue levels are already relatively high. Nevertheless, we are pursuing the ambitious goal of a double-digit increase in our operating profit. This will require improved stock market performance during the course of the year and a consequent increase in securities turnover after the falls registered in this department during the second half of 2004. Furthermore, we shall continue to closely observe the Bank's costs without neglecting important investments. Finally, credit risk costs are expected to be of the same order of magnitude as in recent years.

We are expecting increased profits from all our lines of business. In Private Banking we achieved increases in the volume of assets last year which exceeded our plan figures, and building on this we intend to further expand our product range. Depending on the market situation, we will make greater use of structured products to put in place optimum risk/opportunity profiles for our wealthy private clients. To promote further investment diversification, in 2005 we shall be marketing two more closed-end property funds offering highly attractive yields. These factors, coupled with additional client acquisition, lead us to forecast a significant rise in Private Banking's contribution to profits.

During 2004 we had particular success in increasing numbers of corporate banking relationships with larger medium-sized companies. In recent years HSBC Trinkaus & Burkhardt has proven itself a reliable banking partner for medium-sized companies, and we enjoy high levels of credibility with our clients. We aim to build on this trust, and for 2005 we have set ourselves the main task of strengthening our client relationships. However, we shall not be losing sight of new client acquisition, though without permitting any dilution of the high quality of our loan portfolio in the process. Further growth in our international business, for which we are the banking partner of choice for many clients due to our close integration into the globally-active HSBC Group, will make a major contribution to the intensification of our client relationships.

As regards our business with institutional clients, during the course of the year we are expecting further increase in interest rate and equities business turnovers and also significant growth in derivatives business. We have taken on new personnel to cater for these increases, and interaction with our own trading books and the opportunities afforded by the HSBC Group means we now have a strong foundation for even the largest transactions. The expansion of our asset management product range has met with great interest, and we also intend to increase our selection of services in global custody for particularly upmarket contracts, as well as further developing our master capital investment company offer through our subsidiary INKA Internationale Kapitalanlagegesellschaft mbH. The major volume growth in the master capital investment company line of business has left us highly optimistic about prospects for 2005.

Our HSBC Trinkaus Investment Products sales initiative continues to be successful, and we shall further increase sales of our mutual funds, warrants and certificates to retail investors through other banks. To this end will intensify our active product marketing activities.

Proprietary Trading is of course the division whose contribution to profits is most strongly dependent on market trends. Nonetheless we are expecting moderate increases in trading with equity-related products and more significant growth in interest-related trading. In currency trading our strategy continues to be geared to winning market share through the competitive deployment of new electronic trading systems and the use of HSBC's global foreign exchange platform: we have laid the foundations for this via a new trading system offering more efficient working processes. Moreover, Proprietary Trading fulfils the additional important function of providing our clients with backup in the form of expertise and readiness to take risk as well as the implementation of individually-tailored solutions.

In the field of securities settlement for other banks and securities houses we have broken new ground, as demonstrated in impressive fashion by our joint venture with T-Systems International GmbH. The integration of our securities settlement into the new company and sale of a 49 % shareholding in it, as well as a call option on T-Systems, should lead to a significant special balance sheet item in 2005 despite the additional costs associated with setting up the new company. Transaction revenue will increase further, thanks both to the all-year-round service for DAB Bank AG and to the newly-acquired client fimatex by boursorama, who will be switching to our full securities service during the second half of 2005. This has prompted additional investment in the GEOS settlement system, which features a high degree of straight-through processing (STP), thus enabling the joint venture to securely process even rapidly rising volumes: in turn, these increased volumes should permit significant unit cost reductions.

Due to significant volume growth in fund administration and in securities settlement we are planning to take on a certain number of additional staff during 2005. Furthermore, we shall be selectively reinforcing some specific areas in line with planned business developments, and additional IT investments will also be necessary to guarantee the Bank an infrastructure that will provide long-term reliability at a reasonable cost. The rise in regulatory costs will be significant, occasioned by projects such as Basel II, the Sarbanes-Oxley Act and the conversion to the summary tax certification procedure for securities transactions, as required under German tax laws. None of these offer any compensating operational or economic benefits for the Bank, but unfortunately they are unavoidable for any banking institution. Nevertheless, total growth in administrative expenses should remain of single-digit proportions.

After the issue of subordinated liabilities in 2004, the Bank's capital position is above average for a German bank, giving us additional scope for growth, including opportunities to make acquisitions which generate synergies with our existing lines of business, especially in the fields of private banking and asset management. Meanwhile, we shall continue to follow the principle of linking dividends to profits.

Risk Management

Principles of risk management policy

One of the key functions of a bank is to consciously accept risk, actively controlling it and systematically transforming it. We view the principal risks of our banking business as being counterparty and operational and strategical risks, market and liquidity risk. 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 assume risk, but also offers corresponding risk premium and revenue potential.

In line with these risk principles we are willing to actively enter into market and counterparty risk. However, we avoid liquidity risk as far as possible and are prepared to accept lower profits in consequence. Operational risks are minimised to an extent consistent with maintaining a reasonable balance between risk avoidance and the associated costs thereof. Furthermore, the bank has of course taken out suitable levels of insurance cover.

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

Risk management organisational structure

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

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

Another body playing a major role in early risk detection is the internal audit department, which, in its reports, highlights materially significant risks through the classification of its audit findings.

This organisational structure ensures that risks are promptly identified and that suitable countermeasures taken in good time, despite the Bank's size and degree of the specialisation. We should nonetheless note that it is never possible to completely exclude unforeseen risks, and because of this the short decision-making channels to senior management, the awareness of risks taken, and the continuous development of the Group's risk management system are all of central importance.

Strategic risks

By strategic risk we mean possible changes in market circumstances and in the Group's operational capabilities which could effect earning power in the medium term. Such risks may arise as a result of changes in corporate policy. HSBC Trinkaus & Burkhardt is particularly exposed to such risks because our major clients are high net worth individuals and significant institutions, and correspondingly hard to acquire.

The Bank's strategic stance reflects the risk arising from the fact that a large proportion of our revenues is dependent upon our clients' activities on the equity, bond and foreign exchange 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, can only counteract this risk to a limited extent. Our collaboration with the HSBC Group is of great importance in this respect.

The increasing use of the Internet and new electronic trading platforms has led to steady falls in margins, and also entails the risk of clients' ties with the Bank becoming looser. 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 care and immediate execution of orders. The profits generated by individual banking services are coming under ever-greater pressure, and we are combating this trend through the rationalisation and automation of our working processes. In this area, information technology is of crucial importance.

The further modernisation of our IT architecture will continue to demand significant personnel and financial resources. In 2002, we introduced a highly efficient securities settlement system which led to a major improvement in working processes and process security in this area of core activity for the Bank. To cover the resulting cost increases, HSBC Trinkaus & Burkhardt has also offered its securities settlement system to other banks, and the success of this new business activity has had a major influence on the medium-term development of our unit costs. Furthermore, the establishment of a securities settlement joint venture, together with T-Systems International GmbH, will allow us to reduce the strategic risk resulting from our heavy investment in the system.

In 2005, we shall conclude the introduction of a Private Banking portfolio management system, as well as pressing on with the project we have already commenced in the field of Finance. Additionally, the project to implement the equity capital rules laid down in Basel II, and also the provisions of the Sarbanes-Oxley Act, will become increasingly important. These projects are inevitably bound up with considerable costs for the work involved in introducing these changes and also for future license fees. All in all, we view with great concern the fact that the regulatory costs to which the Bank is subject are growing much faster than our revenue potential, to the extent that these costs now exert a significant influence on the minimum cost-efficient operational size of the Bank.

As a general principle, the continuous improvement in our efficiency is absolutely essential if we are to safeguard the Bank's competitive situation.

Counterparty risk

Counterparty risk may be subdivided into credit and counterparty risk on the one hand, and country or 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), its guarantee, documentary credit and discounting business, as well as its dealings in derivative products; while settlement and purchase risks, especially those arising from securities, foreign exchange and payments activities, are also included.

Our credit department organisation 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 Schuldscheindarlehen, or the issue of bonds. Furthermore, netting agreements 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 risk of borrower default is in proportion to their 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 2002 were duly implemented in advance of the stipulated deadline of 30 June 2004. The Bank’s Managing Partners have duly delegated loan approval authority, in accordance with the statutory provisions, in relation to large and connected exposures. Qualifications and credit experience are the yardsticks used to determine the extent of an employee’s credit approval authority.

The Credit Committee makes decisions on credit risks which exceed a certain limit, the limit being determined by the client’s creditworthiness and the term of the loan. Larger loans, when approved by the Bank’s Credit Committee, then require the approval of the Credit Working Party of the Shareholders’ Committee, which observes the Shareholders’ Committee obligations laid down in the Articles of Association.

For the evaluation of the credit portfolio, all counterparties are assigned to one of seven credit risk categories on the basis of four factors: economic and financial soundness, market position, management and future prospects. Categories 1–3 correspond to the internationally recognised investment grade rating and categories 4–5 to a sub-investment grade rating. Category 6 is assigned to facilities for which bad debt provisions have been raised, while Category 7 indicates credit risks where non-performance is a near certainty. In light of the pending reform of the Basel Capital Accord, the Bank is developing and implementing a new internal rating system (see section on Basel II). 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 an exposure limit system. It includes daily monitoring to make sure that approved lines of credit are not being exceeded.

The same system is used to notify the Bundesbank of large exposures and loans, as well as to generate internal statistical data and numerous reports.

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

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

Loans involving sovereign risk can only be granted within the framework of approved limits for the countries concerned. Credits to foreign borrowers always involve sovereign risk unless fully covered by domestic collateral, and 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 country in question. They must be approved by Management and the Shareholders' Committee and reviewed at least annually. In this context, the Bank makes use of the high-quality expertise available to it through the worldwide offices of HSBC, especially in Asian and Latin American countries. The utilisation of country limits is controlled by computer software that also takes risk transfers into account.

The amount and structure of loans and advances to banks are described in the Notes. The Group is deliberately reticent about foreign lending, except where the purpose is to assist clients in their business dealings. The local offices of the HSBC Group are better able to assess (and therefore potentially accept) many risks which are difficult for us to evaluate.

Counterparty risks related to the OTC derivatives business are shown in note 52. These consist of the positive market values of transactions, and are broken down according to type of transaction.

Basel II

In 2004, the Basel Committee on Banking Supervision established the final version of the new equity capital recommendations (Basel II) and laid down a timetable for their introduction. Central to Basel II is the changing of the regulatory equity capital requirements governing the credit industry. The new regulations will lead to a far more differentiated assessment and quantification of credit risk.
HSBC Trinkaus & Burkhardt is currently working on the implementation of an internal ratings-based approach in line with Basel II. The Bank expects the introduction of an internal rating system to facilitate the risk-sensitive controlling of its portfolio in compliance with the Basel II capital adequacy requirements, and to facilitate Bank-wide risk-adjusted controlling based on this system.

After the adoption of the final version of Basel II in 2004, HSBC Trinkaus & Burkhardt pressed swiftly ahead with its implementation. A central project group was set up to coordinate implementation in the fields of credit, accounting and IT. A focal point of this work was the development of a Basel II-compliant client rating system, and this is set to be introduced during 2005. With regard to IT, the Basel II project is closely linked with the project to introduce a new bank supervision reporting system in order to guarantee consistent data representation.

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

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 ones 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.

The management and controlling of operational risks is of ever-growing importance. Reasons for this include:

- The spectacular losses experienced by some banks
- The entry into force in May 1998 of the Control and Transparency of Companies Act
- The Basel II capital adequacy requirements for operational risks, which are expected to enter into force by the end of 2006

HSBC Trinkaus & Burkhardt has always assigned great importance to the reduction of operational risks to an acceptable level, while taking due account of the costs incurred in so doing.

In 2004, the Bank appointed decentralised operational risk coordinators in all business areas, with the remit of assisting the various departmental managers in their work in the field of the management and control of operational risks. The coordinators received the necessary training via a series of workshops.

The decentralised operational risk coordinators are the contact persons for the secretary of the Operational Risks Committee, which is responsible for bank-wide coordination functions. This committee is the central body responsible for the across-the-board control of operational risks within the Bank and is under the chairmanship of the Managing Partner responsible for risk control. It is a further important element in our risk management organisational structure, facilitating the integrated cross-division control of process-inherent operating and legal risks.

Minutes of Operational Risks Committee meetings are submitted to the entire executive management for approval, thus ensuring that every Managing Partner and senior manager is continuously informed of the latest developments, and of the Bank's risk profile.

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 of all the Bank's divisions are analysed in collaboration with the department heads and coordinators in order to identify potential operational risk. During 2004, the processes required to implement this system of operational risk self-assessment were further formalised.

The Committee is also available at all times to any departments or subsidiaries wishing to discuss and formulate monitoring or control measures.

An operational risk, once identified, is evaluated according to its loss potential and the likelihood of its occurrence both before and after taking into account any risk reduction measures already taken. If the Committee identifies major operational risks which it believes are not being monitored or supervised, or inadequately so, it decides upon 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.

A further significant instrument in the identification and observation of operational risk is the incident reporting system, in which all subsidiaries and branches of HSBC Trinkaus & Burkhardt are involved. All operational risks that lead to significant loss, or which could have done so under unfavourable conditions, must be reported to the Committee's office. This ensures that each (potential) incident is analysed quickly 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 on an incidents database. Each member of the Operational Risks Committee, the departmental managers and the decentralised operational risk coordinators have access to this database, and can obtain details of the causes and impact of incidents as well as countermeasures taken. The database contains records of all the incidents occurring since 2000.

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

2004 saw the introduction of an additional knowledge database for operational risks. This records all significant information concerning the processes involved in operational risk management. These include descriptions of the methods and procedures used, minutes of Operational Risk Committee meetings, statistics, training materials, external reports and software tools.

Management attaches great importance to fostering 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. Furthermore, some risks are also covered by insurance.

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

The increasing automation of procedures, the ever-increasing complexity of the business and its backup by ever more sophisticated and powerful IT systems leads to a constantly growing dependency on a fully functioning technological infrastructure. Accordingly, topics such as system security, downtime limitation and backup systems are central to our thinking. Our central computer systems have been upgraded and our IT system crisis management plans again tested and further modified. In view of the great importance of information technology to the Bank's business activities, the continuing development of systems management will remain a major focus of our future operational risk limitation activities.

Market risks

Market risks are the potential losses on trading positions arising from changes in the market prices of securities and currencies, fluctuations in interest rates and volatilities, dividend estimates and correlations. Such risks are managed with the aim of enhancing earnings without placing undue strain on the Bank's financial resources. Market risk in the proprietary trading sector arises from interest rate, equity and foreign exchange activities. We do not assume any market risk in respect of raw materials or proprietary trading in credit derivatives, power, insurance or weather derivatives.

To measure market risks under normal market conditions we use a value-at-risk approach, where value-at-risk is defined as the potential loss which will, with 99% probability, not be exceeded within one trading day, assuming unaltered trading positions. Our value-at-risk model is based on 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 possible change in market rates and also spread risk between government bonds, swaps and Pfandbriefe. Spread risks of other interest-rate positions are not included in the model in view of their minimal importance for Proprietary Trading. Issuer-specific risks are covered outside the risk model through the credit risk process and controlled via issuer risk limits.

The risk model includes historic correlations of risk factors observable on the market, whereby the aggregation of risks may lead to significant diversification effects not only between risk classes but also between different trading areas. Thus we observe a mean degree of diversification of approximately 37 % between individual risk classes and of almost 60 % between different trading areas. Accordingly, the overall risk to the bank is smaller than the sum of the individual risks by a corresponding percentage. This method of assessment provides a more exact and, as empirical experience has shown, more realistic picture of the Bank's risk situation.

Note 53 sets out the Bank's total market risk according to our internal risk model and shows comparable figures for our Luxembourg subsidiary.

The internal model introduced in January 2004 has, with the Federal Financial Supervisory Authority's (BaFin) consent, also been used since May 2004 to calculate the necessary capital adequacy in relation to trading book market risk pursuant to the capital ratio according to the German Banking Act. Since that date the diversification benefit has led to a tangible saving of regulatory equity capital.

Since 1 October 2004, we have also been using this risk model to quantify the market risk inherent in the special assets managed by our subsidiary INKA. This is in line with an outsourcing contract with INKA whereby we calculate INKA's market risk, in so doing allowing the company to implement, ahead of time, the provisions of BaFin's Derivatives Regulation (Derivateverordnung), which came into force on 6 February 2004.

Value-at-risk approaches are acknowledged as unsuitable for calculating losses likely in extreme market situations, or in the case of new and 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 established for some of the predicted losses arising from the stress tests, and the scenarios we use are regularly checked and updated.

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 2004, no back-testing anomalies were found anywhere throughout the bank, a fact which suggests that the risk modelling employed is probably on the conservative side.

Outside the model we employ a number of additional sensitivity, volume and maturity limits in order both to avoid concentration risk 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 through the fixing of corresponding valuation parameters.

Compliance with all risk limits is monitored every day by the market risk controlling department on the basis of overnight positions The limits used here are assigned once a year on the basis of an analysis of capacity to assume risk, and also the Asset and Liability Management Committee's capital allocation decisions. They are adjusted, if necessary, during the course of the year. In the event of repeated trading losses, the value-at-risk limits are automatically reduced. 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 reinvestment of equity capital components are allocated to the Bank's investment book. These risks are determined outside the risk models, and are monitored at executive management level.

Liquidity risk

Liquidity risk is the danger of insolvency. We avoid this by maintaining high liquidity and by the responsible configuration of assets and liabilities. We also monitor undisbursed loan commitments and call upon liquidity arising from pending transactions. In addition, it is important to fully capture the widely fluctuating balances of incoming and outgoing payment flows.

The Bank’s structural liquidity position is determined and managed by the Asset and Liability Management Committee. A major help here is the figures disclosed on the Bank’s liquidity balance sheet, while the substantial Lombard Pool of securities that we maintain at the Bundesbank provides an important liquidity reserve which fully covers the needs of our various business activities.

Daily liquidity is managed by the Short-term Treasury Desk. This is where the payment streams from customer business and own-account business flow together, and are placed in the inter-bank money market, or used for securities repo transactions. Our internal cash reserves comfortably exceed the liquidity requirements of the Federal Financial Supervisory Authority (BaFin).

Staff

Number of Employees

The number of persons employed by the Group had risen by the end of 2004 to 1,621; 96 more than at the end of the previous year. Ten trainees completed their banking qualifications during 2004 and seven passed their examinations in office communications. Furthermore, two software developers and one IT-system electronics engineer successfully passed their examinations.

At the end of 2004 we were paying retirement, widow’s or orphan’s pensions to 502 recipients (2003: 456).

Training and Development

In view of the enduringly fierce competition in the banking industry, the technical and social skills of our employees are of the utmost importance, because only highly qualified personnel are capable of meeting the exacting quality standards demanded by our work. As in the past, we shall continue to foster the necessary skills through in-house seminars, product-specific training courses, management and communication training, IT and PC seminars, as well as foreign language courses and secondment abroad. When selecting vocational training activities, we pay close attention to the actual work responsibilities assigned to each employee.

Performance and Payment

Performance-related remuneration represents an important factor in motivating our staff, regardless of their position in respect of collective wage agreements. Accordingly we assigned special importance to profit-oriented payment of management staff.

Thanks

The Bank owes its success to the 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 cooperation during the past year.

Shareholders and Shares

Shareholders

As at 31 December 2004 the Bank had equity capital of € 70.0 million, divided into 26.1 million shares of no par value. 52 % of the share capital was listed on the Düsseldorf, Frankfurt am Main, Munich and Stuttgart stock exchanges.

HSBC Holdings plc, London, indirectly holds 73.5 % of this share capital and Landesbank Baden-Württemberg in Stuttgart indirectly holds 20.3 %.

As at 31 December 2004, the Bank held none of its own shares. During the course of the financial year it purchased 12,613 of its own shares at an average share price of € 79.64 and sold them at an average price of € 80.87. The maximum holding of own shares was 0.02 % of the nominal capital.

Share Price and Market Value

During 2004, our share price rose 0.63 % to € 80.50. The lowest share price of the year was € 77.50 and the highest € 82.50. From an initial issue price of DM 190 per DM 50 nominal share (25 October 1985), the listed share price and market capitalisation have evolved as follows:

Date	Number of shares*	Share price* in €	Market capitalisation in € million
31.12.1985	18,000,000	17.60	317.5
31.12.1990	22,000,000	19.80	435.3
31.12.1995	23,500,000	30.60	718.5
31.12.2000	26,100,000	110.00	2,871.0
31.12.2003	26,100,000	80.00	2,088.0
31.12.2004	26,100,000	80.50	2,101.1

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

Since the initial flotation, the value of the share, assuming reinvestment of dividends and participation in all capital increases, has increased by a factor of approximately 6.9. This is equivalent to average growth of around 11% p. a.

Dividend

For the 2004 financial year, we propose paying a dividend of € 2.25 per share (2003: € 1.75), thus ensuring that our shareholders participate suitably in the increase in profits.

Düsseldorf, 11 February 2005

The Managing Partners

HSBC Trinkaus & Burkhardt
Kommanditgesellschaft auf Aktien
Düsseldorf

Consolidated Accounts

Consolidated Balance Sheet
HSBC Trinkaus & Burkhardt

Assets € million	(Notes)	31.12.2004	31.12.2003	Change € million	Change %
Cash reserves	(17)	157.9	63.8	94.1	> 100
Loans and advances to banks	(5, 18)	2,531.0	1,479.6	1,051.4	71.1
Loans and advances to customers	(5, 19)	2,636.7	2,364.7	272.0	11.5
Risk provisions	(6, 20)	- 52.3	- 60.0	7.7	- 12.8
Financial assets held for trading	(7, 21)	6,215.6	4,992.2	1,223.4	24.5
Financial assets	(8, 22)	1,678.2	1,975.2	- 297.0	- 15.0
Property and equipment	(9, 23)	74.9	78.4	- 3.5	- 4.5
Intangible assets	(10, 23)	35.4	31.5	3.9	12.4
Other assets	(24)	45.7	62.3	- 16.6	- 26.6
Total assets		**13,323.1**	**10,987.7**	**2,335.4**	**21.3**

Liabilities € million	(Notes)	31.12.2004	31.12.2003	Change € million	Change %
Deposits by banks	(12, 27)	913.6	989.2	- 75.6	- 7.6
Customer accounts	(12, 28)	5,927.1	5,569.5	357.6	6.4
Debt securities in issue	(29)	16.9	181.1	- 164.2	- 90.7
Financial liabilities held for trading	(7, 30)	4,956.4	2,883.3	2,073.1	71.9
Provisions	(13, 14, 31)	351.7	311.6	40.1	12.9
Other liabilities	(32)	81.4	59.0	22.4	38.0
Subordinated capital	(33)	273.2	240.2	33.0	13.7
Minority interests held by third parties	(34)	0.1	0.1	0.0	0.0
Equity capital	(35)	802.7	753.7	49.0	6.5
Subscribed capital		70.0	70.0	0.0	0.0
Capital reserve		210.5	210.5	0.0	0.0
Retained earnings		347.2	340.3	6.9	2.0
Revaluation reserve for financial instruments		92.3	75.6	16.7	22.1
Consolidated profit		82.7	57.3	25.4	44.3
Total liabilities		**13,323.1**	**10,987.7**	**2,335.4**	**21.3**

Consolidated Profit and Loss Account HSBC Trinkaus & Burkhardt

Profit and Loss Account € million	(Notes)	2004	2003	Change in € m	Change in %
Interest receivable		174.1	199.3	- 25.2	- 12.6
Interest payable		104.8	124.3	- 19.5	- 15.7
Net interest income	(36)	69.3	75.0	- 5.7	- 7.6
Risk provisions	(6, 37)	1.6	7.7	- 6.1	- 79.2
Fees and commission receivable		324.0	273.1	50.9	18.6
Fees and commission payable		97.6	76.7	20.9	27.3
Net fees and commissions	(38)	226.4	196.4	30.0	15.3
Trading profit	(39)	54.4	44.8	9.6	21.4
Total administrative expenses	(40)	250.0	226.9	23.1	10.2
Other income	(41)	27.8	5.2	22.6	> 100
Other expenses	(42)	4.8	2.6	2.2	84.6
Profit on ordinary activities before tax		**121.5**	**84.2**	**37.3**	**44.3**
Extraordinary items		0.0	0.0	0.0	0.0
Net income before tax		**121.5**	**84.2**	**37.3**	**44.3**
Taxes on income	(43)	43.5	37.3	6.2	16.6
Net income		**78.0**	**46.9**	**31.1**	**66.3**

Appropriation of net income:

€ million	31.12.2004	31.12.2003
Net income	78.0	46.9
Profit attributable to minority shareholders	0.0	0.0
Profit carried forward	4.7	10.4
Consolidated profit	**82.7**	**57.3**
Allocated to:		
Dividend distribution	58.7	45.7
Retained earnings and profit carried forward	24.0	11.6

The origin and application of the value added are shown in Note 46.

Earnings per share:

Earnings per share, which are set out in detail in Note 45, were as follows:

in €	2004	2003
Earnings per share	2.99	1.80
Diluted earnings per share	2.99	1.80

Cost/income ratio

The 2004 cost/income ratio for ordinary business activities (the relationship between total administrative expenses and income excluding risk provisions) was 67.0 % (2003: 71.2 %). The breakdown of the operating profit is set out in the segmental reporting in note 44.

Consolidated Statement of Changes in Capital Position HSBC Trinkaus & Burkhardt

in € m	Sub-scribed capital	Capital reserve	Retained earnings	Revaluation reserve for financial instruments	Consoli-dated profit	Total
As at 31.12.2002	**70.0**	**210.5**	**340.3**	**60.5**	**36.6**	**717.9**
Distribution of balance sheet profit					- 26.1	- 26.1
Retention from 2002 balance sheet profit			0.0		0.0	0.0
Changes in value resulting from currency differences					- 0.1	- 0.1
Addition from net income					46.9	46.9
Additions / disposals / market value fluctuations in 2003				15.1		15.1
2003 profit attributable to minority shareholders					0.0	0.0
As at 31.12.2003	**70.0**	**210.5**	**340.3**	**75.6**	**57.3**	**753.7**
Distribution of balance sheet profit					- 45.7	- 45.7
Retention from 2003 balance sheet profit			6.9		- 6.9	0.0
Changes in value resulting from currency differences					0.0	0.0
Addition from net income					78.0	78.0
Additions / disposals / market value fluctuations in 2004				16.7		16.7
2004 profit attributable to minority shareholders					0.0	0.0
As at 31.12.2004	**70.0**	**210.5**	**347.2**	**92.3**	**82.7**	**802.7**

HSBC Trinkaus & Burkhardt
Consolidated Cash Flow Statement

€ million	2004	2003
Net income	78.0	46.9
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	70.1	0.2
Net profit from sale of investments, property and equipment	- 21.9	- 1.3
Other adjustments (net)	- 50.8	- 11.8
Sub-total	75.4	34.0
Changes to assets and liabilities from operating activities, after adjustment for non-cash components:		
Loans and advances to banks	- 1,051.4	499.4
Loans and advances to customers	- 281.6	89.8
Securities held for trading	849.7	- 650.6
Other assets	295.5	241.5
Liabilities	280.9	- 64.2
Debt securities in issue	- 164.2	- 87.0
Other liabilities	21.0	- 12.1
Total adjustments	- 50.1	16.8
Interest receipts	168.9	191.9
Dividend receipts	5.2	7.4
Interest payments	- 104.8	- 124.3
Income taxes paid	- 35.8	- 38.6
Cash flow from operating activities	**58.8**	**87.2**
Proceeds from the sale of		
Investments	64.4	2.8
Property, equipment and intangible assets	0.9	0.3
Payments for the acquisition of		
Investments	- 0.5	- 0.3
Property, equipment and intangible assets	- 16.8	- 12.5
Gains upon deconsolidation of Group companies	0.0	0.0
Cash flow from investment activities	**48.0**	**- 9.7**
Dividends paid	- 45.7	- 26.1
Adjustments to subordinated capital	33.0	- 2.7
Cash flow from financing activities	**- 12.7**	**- 28.8**

Cash and cash equivalents at beginning of period	**63.8**	**15.1**
Cash flow from operating activities	58.8	87.2
Cash flow from investment activities	48.0	- 9.7
Cash flow from financing activities	- 12.7	- 28.8
Cash and cash equivalents at end of period	**157.9**	**63.8**

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Notes to the Consolidated Accounts

HSBC Trinkaus & Burkhardt KGaA's consolidated financial statements for the 2004 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS), which also embrace the International Accounting Standards (IAS) as confirmed by the International Accounting Standards Board (IASB). Standards that have been approved, but not yet become effective, were not applied.

The accounts are presented to our shareholders and the general public in compliance with the exemption provisions of Article 292 (a) of the German Commercial Code (Handelsgesetzbuch ~ HGB). The exemption requirements pursuant to Article 292(a)(2) HGB have been met, and any material divergences from German GAAP are described in the section "Exposition of Accounting, Valuation and Consolidation Methods Differing from German GAAP". These statements also comply with the standards approved by the German Accounting Standards Committee (Deutsche Rechnungslegungs Standards Committee ~ DRSC) and published by the German Ministry of Justice (Bundesministerium der Justiz ~ BMJ) pursuant to Article 342 (2) HGB, as well as with the European Union's disclosure requirements.

For purposes of clarity, all figures have been reported in millions of euros.

The consolidated accounts of HSBC Trinkaus & Burkhardt KGaA are included in the consolidated accounts of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987. At the end of 2004, HSBC Holdings plc had an indirect holding of 73.5 % in the share capital of HSBC Trinkaus & Burkhardt KGaA.

Accounting, Valuation and Consolidation Methods

1 The Group

The consolidated accounts include all affiliated companies in which the parent company, HSBC Trinkaus & Burkhardt KGaA, directly or indirectly possesses a majority shareholding. In addition to the parent company, twenty German subsidiaries (2003: nineteen) and three foreign subsidiaries (2003: three), are fully consolidated in the HSBC Trinkaus & Burkhardt Group. The Group also comprises three special funds (2003: four) which, contrary to German commercial law, are included on the basis of Interpretation SIC-12 published by the Standing Interpretations Committee (SIC).

One newly established entity was added to the Group in 2004, namely Trinkaus Canada Immobilien-Fonds No. 1 Verwaltungs-GmbH, Düsseldorf. In 2004, one domestic special fund was created and two foreign special funds were closed.
In addition, one foreign company – accounted for using the equity method – ceased to be part of the Group. One foreign company of lesser importance was not included in the group of consolidated companies.

The changes to the group of consolidated companies did not significantly affect the Group's assets, financial or profit situation.

A list of the consolidated companies and special funds is given in Note 58.

2 Consolidation Principles

As in the previous year, Group entities have been consolidated using the book value method. Differences arising from the consolidation are calculated on the basis of the value of the new companies on the date of acquisition.

Intra-Group claims and liabilities, pending liabilities, expenses and revenue have been offset against each other; furthermore, we have waived the elimination of intercompany profits of lesser importance.

In accordance with IFRS, the consolidated accounts do not contain special depreciation or valuations only permissible under tax regulations.

3 Foreign Currency Translation

Assets and liabilities held in foreign currency, as well as spot foreign exchange transactions which have yet to be settled, 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. Forward foreign exchange deals are translated at the corresponding forward rate.

Expenses or income from the translation of foreign currency are entered under the same item in the profit and loss account as the corresponding expenses or income from the underlying deal. Balance sheet items of foreign subsidiaries are translated using the reporting date method; expenses and revenues are translated using the appropriate daily rate of exchange. Translation gains or losses arising from capital consolidation are offset against the Group's retained earnings. Translation gains or losses with and without an effect on current results had no significant impact in the 2004 financial year, as in the previous year.

Financial instruments currency translation in accordance with IAS 39 is discussed in Note 4.

4 Financial Instruments: Recognition and Measurement (IAS 39)

IAS 39 governs the accounting and valuation of financial instruments and hedge accounting, as well as supplementing the disclosure requirements of IAS 30 and IAS 32.

All financial instruments are assigned to one of the following categories:

Financial assets	Financial liabilities
Loans and receivables originated by the enterprise	Financial liabilities held for trading
Financial assets held for trading	Other financial liabilities
Held-to-maturity investments	
Available-for-sale financial assets	

We have not currently allocated any financial instruments to the category 'Held-to-maturity investments'. In addition to securities, short sales and derivatives, all instruments issued directly under the responsibility of the trading divisions are allocated to 'Financial liabilities held-for-trading'.

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

In accordance with IAS 39, impairments are under certain circumstances assigned to the profit and loss account as follows:

- Loans and receivables originated by the Enterprise	in risk provisions
- Available-for-sale (purchased receivables)	in risk provisions
- Available-for-sale financial assets	in net profit/loss/write-offs from financial assets

Impairment tests are conducted on each balance sheet date.

Other changes in value in the available-for-sale category resulting from the subsequent valuation of financial assets are disclosed under Equity Capital (revaluation reserve for financial instruments), with no effect on profits.

Where it is necessary to split hybrid financial instruments into the host contract and the derivative portion (i. e., embedded derivatives), we have recorded the derivative separately in the balance sheet. Embedded derivatives are reported under financial assets held for trading and/or financial liabilities held for trading at market value. Internal deals are not reported. To give an accurate picture in the profit and loss account, individual items and/or sub-items are modified through the congruent recognition of both sides of an internal deal.

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.

5 Loans and Advances

Loans and advances to banks and customers that represent loans and receivables originated by the enterprise are reported at amortised cost. Discounts and premiums (i. e. the difference between amounts paid out and nominal value) are deferred and reported under interest receivable or payable spread over the period. Purchased receivables that are allocated to available-for-sale financial assets are reported at fair value.

Impairments for counterparty, sovereign and latent risk are not offset against the respective loans or advances, instead being openly charged to assets in the Risk Provisions item (cf. Note 6). Irrespective of any legal claims, interest receivable from loans and advances is not recognised after such time as it has become reasonable to assume that the loan or advance is no longer collectible.

6 Risk Provisions

Risk provisions comprise specific bad debt charges and provisions for all discernible counterparty and sovereign risk, as well as latent default risk. All risk provisions are reported on the asset side. Risk provisions are created applying conservative standards.

Provisions for bad and doubtful debts in relation to on-balance sheet loans and advances, as well as provisions for contingent liabilities and commitments in respect of off-balance sheet transactions, are determined individually for each borrower. The Credit Department classifies all borrowers in one of seven categories using a Group-wide, standardised internal credit rating (see also the "Risk Management" section of the Group Management Report). The credit ratings reflect the likelihood of a borrower defaulting on the relative credit exposure. In each case, provisions are created equal to the amount of the expected loss including, if need be, unpaid interest. The expected loss is carefully assessed on the basis of the individual likelihood of default for each commitment, with consideration given to the value of any security held. We stop accruing interest at the latest when insolvency proceedings are opened.

Sovereign risk is defined as risk arising from limitations in a country's ability to service foreign payment obligations. Loans to borrowers exposed to high sovereign risk entail an evaluation of the economic situation in the borrower's home country using various economic data. These data are analysed and, along with other factors such as the political situation or regional stability, are used to classify the country according to individual rating classes. Sovereign bad debt charges are set up on the basis of the rating of the country involved.

Furthermore, we raise general bad debt charges to account for latent default risk in the credit business. Provided there is no substantial objective evidence of an impairment of individual valued assets, these assets will be aggregated into a group of comparable default risk. A general bad debt charge will then be calculated for each of these groups, on the basis of historical default probabilities.

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

7 Financial Assets and Financial Liabilities Held for Trading

The held-for-trading portfolio and all derivatives, unless they have a direct economic connection with items in financial assets, are reported in the balance sheet as financial assets/liabilities held-for-trading at fair values. Such assets and liabilities are not netted.

Whenever possible, valuation is based on the market price as listed on stock markets and other functioning markets. Internal valuation methods are also used, in particular, cash value calculation.

Trading profit in the profit and loss account includes all realised and unrealised gains and losses from trading activities. Trading-related interest and dividend income – shown as the difference between the interest and dividend revenue of trading positions and the refinancing interest – is included in trading profit.

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

8 Financial Assets

The Financial Assets balance sheet item comprises certain available-for-sale assets, as well as shares in an associated company. The available-for-sale assets comprise securities (including registered bonds), borrower's note loans and participations, all of which are held at fair value. Derivatives, where they have a direct economic connection with the Financial Asset items, are also reported under Financial Assets.

In the event of a reduction in valuation due to counterparty or sovereign risk (i. e., impairment), write-down to the lower market value is made. If the grounds for the write-down subsequently cease to apply, a write-back is made to the amortised cost price at most. By the end of the 2004 financial year, there were no significant restraints on proposals for assets related to the Financial Assets.

9 Property and Equipment

The Property and Equipment balance sheet item comprises property and buildings, hardware and other operational and business equipment. The property and buildings are used almost entirely for our banking business. Property and equipment are valued at cost less regular depreciation. The useful life of an asset is calculated applying factors such as physical life expectancy and technological progress, as well as contractual and legal restrictions. Regular depreciation is on a straight-line basis over the expected useful life of the asset. Throughout the Group the following useful lives are applied in relation to planned depreciation:

Useful life in years	
Buildings	50
Hardware	3–10
Other operating and business equipment	5–13

Diminution in value which exceeds wear and tear-related depreciation is catered for by way of special write-offs. Should the initial reason for making a special write-off cease to exist, the value is readjusted. Special tax write-offs do not apply. The book value of property on the consolidated balance sheet is € 22.3 million (2003: € 24.9 million) higher than the book value carried on the individual balance sheets. In 2004, there was unplanned depreciation on property and buildings totalling € 2.6 million, and this is disclosed under the financial assets results (see Note 41). Profits/losses from the disposal of property and equipment totalling € 0.2 million (2003: € 0.2 million) were recovered net in Other Income (see Note 41). Repairs, maintenance and other measures required for the upkeep of property and equipment are recorded as expenses in the financial year in which they were incurred.

10 Intangible Assets

The only items disclosed under Intangible Assets are system and application software. Intangible assets are valued at their cost of acquisition and taking account of planned straight-line depreciation over the estimated useful life of three to ten years.

11 Leasing

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

12 Deposits, Customer Accounts, Debt Securities in Issue

These liabilities are carried at repayment value. Where a discount or premium has been agreed this is taken into account. Non-interest-bearing paper, such as zero-coupon bonds, is reported at issuance value, grossed up by yield to the balance sheet date.

13 Provisions

Provisions for pensions and similar obligations are created according to actuarial principles. Actuarial profits and losses are distributed over the average residual working life of the employees. The calculation is performed using the projected unit credit method. Allocations to pension provisions are shown under Expenses for the pension plan. Details are given in Note 31. Provisions for taxes and uncertain liabilities are created in amounts equal to the anticipated claims.

14 Deferred Taxes

Deferred taxes are calculated using the temporary differences concept as per IAS 12. A comparison is made of the balance sheet valuations of assets and liabilities with the valuations that are used for the taxation of the Group company in question, and these differential valuations lead to temporary value differences. Deferred tax claims or deferred tax obligations must be created regardless of when the realignment of the valuations occurs. The deferred taxes are calculated according to the tax rates which, to the best of our current knowledge, based on existing and anticipated tax legislation, will be used for the adjustment of the valuation methods. Should actual tax rates differ from these estimates, the balance sheet entries for deferred tax rebates and tax provisions will be adjusted accordingly.

Deferred tax rebates claims arising from the different valuation methods applied on the IFRS balance sheet and the balance sheet used for tax purposes, may reduce the deferred tax liabilities posted as provisions on the liabilities side of the balance sheet, provided the conditions for netting exist.

15 Changes in Accounting, Valuation and Consolidation Methods

A change from the previous year is that system and application software is posted in the 2004 consolidated financial statements to the Intangible Assets balance sheet item, rather than to Property and Equipment as previously. Apart from this change, and after taking due account of the IFRS standards and corresponding interpretations now in force, we have applied the same accounting, valuation and consolidation methods as in the 2003 consolidated accounts.

16 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

17 Cash Reserves

€ million	31.12.2004	31.12.2003
Cash in hand	1.8	1.9
Balances with central banks	156.1	61.9
Total	**157.9**	**63.8**

18 Loans and Advances to Banks

€ million	31.12.2004	31.12.2003
German Banks	**698.4**	**423.9**
Repayable on demand	257.7	267.9
Money market	286.5	143.8
Loans	154.2	12.2
of which reverse repos	144.4	6.3
Foreign Banks	**1,832.6**	**1,055.7**
Repayable on demand	598.6	150.7
Money market	1,102.2	733.3
Loans	131.8	171.7
of which reverse repos	0.0	0.0
Total	**2,531.0**	**1,479.6**

19 Loans and Advances to Customers

€ million	31.12.2004	31.12.2003
Customers in Germany	**2,147.2**	**1,934.9**
Corporate Banking	1,723.3	1,495.6
Private Banking	379.4	371.2
Public Sector	5.1	5.2
Others	39.4	62.9
Foreign Customers	**489.5**	**429.8**
Corporate Banking	377.4	325.2
Private Banking	112.0	104.4
Public Sector	0.1	0.2
Others	0.0	0.0
Total	**2,636.7**	**2,364.7**

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

€ million	Affiliated Companies		Companies in which a share is held	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Loans and advances to banks	629.0	254.5	0.0	0.0
Loans and advances to customers	0.0	0.1	0.1	0.3
Total	**629.0**	**254.6**	**0.1**	**0.3**

20 Risk Provisions

€ million	Counterparty risk		Sovereign risk		Latent risk (general bad debt charge)		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
As at 1.1.	49.5	52.6	3.1	3.9	7.4	6.9	60.0	63.4
Write-backs	5.2	5.8	0.2	0.8	0.0	0.0	5.4	6.6
Applications	9.6	11.3	0.0	0.0	0.0	0.0	9.6	11.3
Additions	5.9	14.0	0.1	0.1	1.3	0.5	7.3	14.6
Currency differences	0.0	0.0	0.0	- 0.1	0.0	0.0	0.0	- 0.1
As at 31.12.	**40.6**	**49.5**	**3.0**	**3.1**	**8.7**	**7.4**	**52.3**	**60.0**

Interest payments were suspended on € 12.0 million (2003: € 14.3 million) of total loans and advances. The loss in interest income for 2004 was € 0.8 million (2003: 1.0 € million).

Breakdown of Risk Provisions

€ million	31.12.2004	31.12.2003
Loans and advances to banks	0.0	0.7
Loans and advances to customers	30.0	41.6
Endorsement liabilities, bank guarantees, L/Cs and loan commitments	22.3	17.7
Total	**52.3**	**60.0**

Credit Volumes and Key Risk Provision Figures

Key figures	31.12.2004	31.12.2003
Loans and advances to customers	2,636.7	2,364.7
Loans and advances to banks	286.0	183.9
Bank guarantees and L/Cs	1,114.1	1,009.9
Irrevocable loan commitments	2,432.2	1,942.9
Credit volumes	**6,469.0**	**5,501.4**
Net risk provisions[1] € million	1.6	7.7
Addition rate in %	0.02	0.14
Aggregate risk provisions[2] € million	52.3	60.0
Provisioning rate in %	0.81	1.09

[1] Net risk provisions: Additions minus write-backs of bad debt charges and provisions plus net direct amortisations and recoveries of amounts previously written off

[2] Aggregate risk provisions: Total amount of bad debt charges and provisions

Borrowers in Germany accounted for € 2,301.4 million (2003: € 1,947.1 million) of all credit extended: foreign borrowers accounted for € 621.3 million (2003: € 601.5 million).

21 Financial Assets Held-for-Trading

€ million	31.12.2004	31.12.2003
Bonds and other fixed-income securities	1,553.3	1,380.7
Public issuers	103.5	294.5
Other issuers	1,449.8	1,086.2
including:		
own bonds	0.0	74.0
of which:		
listed	1,523.2	1,377.3
unlisted	30.1	3.4
Equities and other non-fixed-income securities	651.5	500.1
of which:		
listed	616.8	489.7
unlisted	34.7	10.4
Marketable assets	1,890.5	1,295.5
Positive market value of derivatives	2,120.3	1,815.9
of which:		
OTC derivatives	1,957.2	1,703.8
Listed derivatives	163.1	112.1
Total	**6,215.6**	**4,992.2**

The marketable assets are chiefly borrower's note loans and registered bonds. The increase in the positive market value of the derivatives corresponds to the increase in the negative market value of the derivatives (cf. Note 30). This item comprises the positive market values of all derivatives, except those having a direct economic connection with items disclosed under Financial Assets.

22 Financial Assets

Financial Assets comprise the Bank's strategic positions, and break down as follows:

€ million	31.12.2004	31.12.2003
Bonds and other fixed-income securities and interest rate derivative products	1,150.3	1,426.0
of which public issuers	342.8	319.1
Equities and equity derivatives	86.6	135.8
Investment certificates	118.3	100.3
Borrower's note loans	258.4	213.4
Participations	64.6	57.2
Holdings in associated companies	0.0	42.5
Total	**1,678.2**	**1,975.2**

Bonds and other fixed-income securities with a book value of € 252.9 million (2003: € 169.8 million) are due to mature in 2005.

All financial assets are "available for sale" in compliance with IAS 39. Available-for-sale holdings are valued at fair value in accordance with IAS 39.

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

€ million	31.12.2004	31.12.2003
Bonds and other fixed-income securities	69.6	63.7
Equities	- 0.5	- 6.1
Investment certificates	6.8	2.2
Borrower's note loans	29.1	24.2
Participations	29.2	27.8
Total	**134.2**	**111.8**

The minority interest in HSBC Guyerzeller Bank AG, Zürich was sold to HSBC Europe (Netherlands) B.V., Amsterdam with effect from 1.1.2004:

€ million	2004	2003
Book value at start of year	42.5	40.6
of which goodwill	8.1	9.0
Amortisation of goodwill	0.0	- 0.9
Share of profits	0.0	4.5
Dividends	0.0	- 1.7
Disposal book value	- 42.5	0.0
of which goodwill	- 8.1	0.0
Book value at end of year	**0.0**	**42.5**
of which goodwill	**0.0**	**8.1**

23 Property and Equipment

€ million	Property and equipment		Intangible assets	Total
	Property and buildings	Operational business equipment	Software	
Acquisition costs 1.1.2004	92.5	62.6	44.0	199.1
Additions	0.0	6.3	10.5	16.8
Disposals	0.0	6.0	0.0	6.0
Re-booking	0.0	- 2.8	2.8	0.0
Acquisition costs 31.12.2004	92.5	60.1	57.3	209.9
Depreciation 1.1.2004	26.3	50.5	12.4	89.2
Planned depreciation	1.2	5.2	6.7	13.1
Unscheduled depreciation	2.6	0.0	0.0	2.6
Depreciation of disposals	0.0	5.3	0.0	5.3
Re-booking	0.0	- 2.8	2.8	0.0
Depreciation 31.12.2004	30.1	47.6	21.9	99.6
Residual book value 31.12.2004	**62.4**	**12.5**	**35.4**	**110.3**
Residual book value 31.12.2003	66.2	12.1	31.6	109.9

For the first time, system and application software has been disclosed under Intangible Assets, and last year's figures have been adjusted accordingly.

The € 0.9 million (previous year € 0.5 million) costs of in-house programming services, incurred in connection with the upgrading of the GEOS securities settlement system, have been capitalised (see Note 41).

On 31.12.2004, deposits by banks secured by charges on property amounted to € 27.2 million (2003: € 27.4 million).

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

24 Other Assets

Other Assets, as of 31.12.2004, included reinsurance claims of € 11.1 million (2003: € 11.7 million) and tax rebate claims of € 2.2 million (2003: € 8.7 million) for current taxes. As in the previous year, where the relevant requirements were met, deferred tax rebate claims were netted out against deferred tax obligations.
The balance is carried as a provision (cf. Notes 14 and 31).

25 Subordinated Assets

€ million	31.12.2004	31.12.2003
Loans and advances to customers	0.5	0.5
Bonds and other fixed-income securities	24.1	14.8
other issuers	24.1	14.8
own issues	0.0	0.0
Profit participation certificates	8.2	0.0
other issuers	8.2	0.0
own issues	0.0	0.0
Total	**32.8**	**15.3**

26 Repurchase Transactions

At the end of the year securities with a total book value of € 56.4 million (2003: € 9.3 million) were sold under repurchase agreements.

27 Deposits by Banks

€ million	31.12.2004	31.12.2003
German Banks	**473.6**	**719.7**
Repayable on demand	290.3	289.8
With fixed term or period of notice	183.3	429.9
Foreign Banks	**440.0**	**269.5**
Repayable on demand	150.3	137.9
With fixed term or period of notice	289.7	131.6
Total	**913.6**	**989.2**

28 Customer Accounts

Customer savings deposits as at 31.12.2004 totalled € 13.2 million (31.12.2003: € 12.2 million).

Other customer accounts break down as follows:

€ million	Repayable on demand		Fixed term or period of notice	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
German Customers	**2,801.3**	**2,724.4**	**1,423.2**	**1,374.3**
Corporate Banking	2,118.3	2,172.4	1,033.5	1,018.7
Private Banking	474.8	435.4	340.6	295.8
Public Sector	20.2	0.4	11.4	14.2
Others	188.0	116.2	37.7	45.6
Foreign Customers	**579.8**	**495.1**	**1,109.6**	**963.5**
Corporate Banking	434.2	354.6	624.5	565.6
Private Banking	145.5	140.4	469.5	397.9
Public Sector	0.0	0.1	0.0	0.0
Others	0.1	0.0	15.6	0.0
Total	**3,381.1**	**3,219.5**	**2,532.8**	**2,337.8**

29 Debt Securities in Issue

€ million	31.12.2004	31.12.2003
Bonds in issue	10.7	179.4
Own acceptances and promissory notes in issue	6.2	1.7
Total	**16.9**	**181.1**

Liabilities include:

€ million	Affiliated companies		Companies in which a share is held	
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Deposits by banks	321.3	157.8	0.0	0.0
Customer accounts	35.3	20.6	0.0	0.4
Own acceptances and promissory notes in issue	0.0	0.0	0.0	0.0
Total	**356.6**	**178.4**	**0.0**	**0.4**

30 Financial Liabilities Held for Trading

€ million	31.12.2004	31.12.2003
Negative market value of derivatives	2,226.4	1,910.4
Discount certificates, borrower's note loans, bonds and warrants in issue	2,705.9	932.4
Delivery commitments arising from short sales of securities	24.1	40.5
Total	**4,956.4**	**2,883.3**

The issue and placement of discount certificates and warrants, as well as of structured borrower's note loans and bonds, are the direct responsibility of the trading departments. These issues are accordingly recognised as 'Financial liabilities held-for-trading' pursuant to IAS 39, and valued at fair value.

The increase in the negative market value of derivatives corresponds to the increase in the positive market value of the derivatives (cf. Note 21).

31 Provisions

€ million	31.12.2004	31.12.2003
Tax provisions	**156.4**	**133.9**
Current taxes	76.2	72.8
Deferred taxes	80.2	61.1
Other provisions	**195.3**	**177.7**
Provisions for pensions and similar obligations	143.4	138.8
Other provisions	51.9	38.9
Total	**351.7**	**311.6**

Provisions totalling € 151.3 million (2003: € 127.0 million) are due within one year.

Provisions for current taxes include anticipated payment obligations to the fiscal authorities, based on the tax balance sheets of the fully consolidated Group companies.

Deferred taxes are future tax charges and/or credits created in respect of differences between tax valuation methods and balance sheet valuation methods (cf. Note 43).

Under IAS 39, deferred taxes are also to be calculated on the revaluation reserve for financial instruments. During the 2004 financial year, these amounted to € 41.9 million (2003: € 39.0 million). However, income tax outlay is not incurred as a result until the said revaluation reserve changes in such a way as to affect profits, in particular on realisation. Until then, the setting-up and writing-back of deferred taxes on the revaluation reserve for financial instruments is netted directly against the revaluation reserve.

Deferred taxation claims and obligations relate to the following items:

€ million	31.12.2004	31.12.2003
Asset-side deferred taxes	**24.7**	**21.6**
Provisions	23.6	21.6
Property and equipment	1.1	0.0
Liability-side deferred taxes	**104.9**	**82.7**
Financial assets	53.8	48.7
Assets held for trading*	46.3	29.2
Risk provisions	2.5	2.6
Property and equipment	2.0	1.9
Provisions	0.3	0.3
Balance of deferred taxes	**80.2**	**61.1**

* Balance of valuation differences arising from all trading activities

The Group's permanent employees are generally eligible for a company pension on the basis of internal direct commitments, either under a company pension plan or under individual contracts. In addition, there are two endowments that bear 6 % and 7.5 % interest respectively.

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

%	31.12.2004	31.12.2003
Long-term base interest rate	4.5	5.25
Expected increase in salaries	2.5	2.5
Anticipated pension adjustment	1.5	1.5

Due to lower yields from first-class fixed-interest industrial bonds, the base interest rate was reduced by 0.75 % to 4.5 %.

On 31.12.2004, the cash value of pension obligations amounted to € 168.7 million (2003: € 147.3 million). The actuarial losses still outstanding amount to € 25.3 million (2003: € 8.5 million). Actuarial losses are distributed over the average residual working life of the employees of 13.5 years.

Group companies also pay contributions to BVV Versicherungsverein des Bankgewerbes a. G. and to BVV Versorgungskasse des Bankgewerbes e. V. In 2004, this defined contribution plan cost € 3.7 million (2003: € 3.6 million).

Other Provisions mainly comprise provisions for staff-related expenses in the form of profit-linked bonus payments and long-service awards, as well as provisions for other operating risks and contingent liabilities.

Movements in provisions were as follows:

€ million	As at 1.1.	Appli-cations	Write-backs	Addi-tions	As at 31.12.
Tax provisions	**133.9**	**2.6**	**0.8**	**25.9**	**156.4**
Current taxes	72.8	2.6	0.0	6.0	76.2
Taxes on income	70.6	2.6	0.0	6.0	74.0
Other taxes	2.2	0.0	0.0	0.0	2.2
Deferred taxes	61.1	0.0	0.8	19.9	80.2
Other provisions	**177.7**	**17.0**	**1.1**	**35.7**	**195.3**
Provisions for pensions and similar obligations*	138.8	0.1	0.6	5.3	143.4
Other provisions	38.9	16.9	0.5	30.4	51.9
Personnel	23.8	13.6	0.3	20.9	30.8
Miscellaneous provisions	15.1	3.3	0.2	9.5	21.1
2004 provisions	**311.6**	**19.6**	**1.9**	**61.6**	**351.7**

* This represents the net additions for legal rights to future pension payments.

32 Other Liabilities

Other liabilities include, inter alia, deferred interest payments of € 2.5 million (2003: € 6.4 million) on participatory capital and of € 7.1 million on subordinated liabilities (2003: € 4.2 million).

33 Subordinated Capital

Subordinated capital is made up of subordinated liabilities (bonds and borrower's note loans) and participatory capital.

€ million	31.12.2004	31.12.2003
Subordinated liabilities	237.4	163.5
Participatory capital	35.8	76.7
Total	**273.2**	**240.2**

In the event of liquidation, insolvency, or proceedings to avert insolvency, claims from subordinated liabilities will be settled only after all other claims against HSBC Trinkaus & Burkhardt KGaA have been met. All subordinated claims have equal priority.

In accordance with article 10 (5a) of the German Banking Act (KWG), subordinated capital totalling € 270.7 million (2003: € 199.3 million), before deduction of discount and market operations, is included in the calculation of liable equity capital.

No subordinated liabilities can be terminated prematurely by creditors. Profit participation certificates can be terminated prematurely by HSBC Trinkaus & Burkhardt KGaA if there is a change in the tax framework, subject to two years' notice of termination.

For the 2004 financial year, interest payables amount to € 11.1 million (2003: € 9.1 million) on subordinated liabilities and to € 4.5 million (2003: € 6.4 million) on participatory capital.

The liabilities also contain subordinated bonds and borrower's note loans. One bond issue of € 25.0 million (2003: two bond issues of € 25.0 million and € 22.9 million) accounts for over 10 % of all subordinated liabilities. It carries a floating interest rate and is due for repayment on 27 January 2011.

Interest and repayment of subordinated liabilities:

Interest rate	Nominal value € million 31.12.2004	Nominal value € million 31.12.2003
4 % to < 5 %	33.0	38.0
5 % to < 6 %	137.1	54.6
6 % to < 7 %	10.2	10.2
7 % to < 8 %	2.6	2.6
8 % to < 9 %	10.2	10.2
Fixed interest rates	193.1	115.6
Variable rates	47.9	47.9
Total	**241.0**	**163.5**

Repayment	Nominal value € million 31.12.2004	Nominal value € million 31.12.2003
2006	10.2	10.2
2007	15.2	15.2
2008	22.9	22.9
2009	38.5	43.5
2010	6.0	6.0
2011	25.0	28.0
2013	7.7	7.7
2014	47.5	-
2016	10.0	-
2019	28.0	-
2022	10.0	10.0
2023	10.0	10.0
2028	10.0	10.0
Total	**241.0**	**163.5**

34 Minority Interest

Minority interest reported concerns Grundstücksgesellschaft Trinkausstraße KG.

35 Equity Capital

As of 31.12.2004, subscribed capital amounted to € 70.0 million (2003: € 70.0 million). As before, this is divided into 26,100,000 shares of no par value. The capital reserve is unchanged at € 210.5 million.

A resolution passed at the Annual General Meeting on 3 June 2003, authorised the Managing Partners to raise share capital by € 23.0 million by 31 May 2008, with the consent of the Supervisory Board, through one or more issues of new bearer shares against payment in cash or in kind (authorised capital).

A contingent capital increase of up to € 13.5 million was realised through the issue of bearer shares. This contingent capital increase will only take place if the holders of conversion or option rights arising out of either convertible or option bonds or participatory certificates with conversion or option rights, issued no later than 31 May 2008, exercise their conversion or option rights (contingent capital).

Revaluation Reserve for Financial Instruments

Change in the revaluation reserve for financial instruments (available-for-sale reserve) after deferred taxes:

€ million	2004	2003
At beginning of year	**75.6**	**60.5**
Disposals	- 9.2	1.6
Market value fluctuations	22.4	12.4
Impairments	3.5	1.1
At end of year	**92.3**	**75.6**

Capital adequacy as per KWG

The key figures required under bank regulatory law as laid down in Articles 10 and 10a of KWG in conjunction with the capital ratio based thereon were as follows:

Key figures pursuant to KWG	31.12.2004	31.12.2003
Equity funds € million	**806**	**650**
Core capital	530	484
Supplementary capital	276	199
Deduction items	0	- 33
Mandatory risk items € million	**6,439**	**5,897**
Risk assets	4,964	4,547
Market risk items	1,475	1,350
Capital ratios in %		
Capital ratio	12.5	11.0
Core capital ratio	8.2	8.2

As in earlier years, we waived the option to add unrealised reserves in buildings and property as supplementary capital to liable equity capital, as permitted under Article 10 (4a) KWG. At the reporting date, unrealised reserves in investment book securities as per Article 10 KWG totalled € 21.7 million.

Capital adequacy as per BIS

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

Key figures pursuant to BIS	31.12.2004	31.12.2003
Equity funds € million	**821**	**694**
Core capital	530	484
Supplementary capital	291	210
Mandatory risk items € million	**6,387**	**6,068**
Risk assets	5,887	5,318
Market risk items	500	750
Capital ratios %		
Capital ratio	12.9	11.4
Core capital ratio*	9.0	9.1

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

At the end of 2004, no Group company held any shares in HSBC Trinkaus & Burkhardt KGaA.

On 31.12.2004, 2,340 HSBC Trinkaus & Burkhardt shares were pledged to Group companies as security for lending (2003: 1,340 shares). This represents 0.009 % of subscribed capital (2003: 0.005 %).

During 2004 12,613 own shares were bought at an average share price of € 79.64 (2003: € 79.03) and sold at an average price of € 80.87 (2003: € 79.70). As in the previous year, the results of this trading in own shares had no material effect on equity capital. The maximum holding of own shares was 0.02 % (2003: 0.07 %) of nominal capital.

Notes to the Consolidated Profit and Loss Account

36 Net Interest Income

€ million	2004	2003
Interest receivable arising from lending, money market business and fixed-income securities	168.9	191.9
Current income from		
Equities and other non-fixed-income securities	3.1	2.8
Participations	2.1	1.0
Holdings in associated companies	0.0	3.6
Interest payable on		
Deposits	85.6	101.1
Debt securities in issue	3.6	7.7
Subordinated capital	15.6	15.5
Total	**69.3**	**75.0**

Net interest income fell 7.6 % from the previous year. The chief reason for this was the sale of our indirect holding in HSBC Guyerzeller Bank AG, Zürich on 1.1.2004. In 2003, the Bank's share of HSBC Guyerzeller's profits was still included in Current income from holdings in associated companies. However, interest income from financial assets also fell, due to the maturity of some high-interest bonds.

37 Risk Provisions

€ million	2004	2003
Additions	7.3	14.6
Write-backs	5.4	6.6
Direct amortisations	0.0	0.0
Recoveries of amounts previously written off	0.3	0.3
Total	**1.6**	**7.7**

Risk provision additions halved during 2004. Apart from the improved overall economic situation, this positive development is due to our traditionally conservative stance regarding loan advances, and also to our strict risk management policies in relation to existing loan commitments.

The development of total balance sheet risk provisions can be seen in Note 20.

38 Net Fees and Commissions

€ million	2004	2003
Securities business	151.9	135.6
Foreign exchange and derivatives	25.9	21.7
International business	13.2	12.3
Corporate Finance	12.2	6.4
Lending	5.9	4.0
Payments	5.6	4.8
Property business	2.1	7.3
Issuing business	1.9	3.0
Other commission and fee-earning business	7.7	1.3
Total	**226.4**	**196.4**

Net fees and commissions rose € 30.0 million to € 226.4 million, thus once again making easily the largest contribution to our operating profit. Virtually all fee and commission activities contributed to this significant increase, reflecting the steadily growing number of lucrative private and corporate banking clients, as well as the expansion of our product range for institutional clients.

In our securities business, the stock market upturn led to increased numbers of transactions and higher turnover. The Mergers & Acquisitions department of Corporate Finance was particularly successful during 2004, virtually doubling its revenues.

Property business registered an extraordinarily good result in 2003, thanks to the placement of two new real estate funds, and as a consequence, this segment's 2004 contribution to profits fell by € 5.2 million.

The principal items accounting for the growth of other commission and fee-earning business were the placement and management of private equity investments amounting to € 3.3 million.

Overall, net fees and commissions income exceeded net interest income by a factor of 3.3 (2003: 2.6).

The administrative and agency services provided to third parties chiefly comprises asset and portfolio management, the administration of investment funds, and corporate finance services.

39 Trading Profit

€ million	2004	2003
Equity and equity/index-related derivatives	33.7	37.5
Bonds and interest rate derivatives	16.2	6.0
Foreign exchange	4.5	1.3
Total	**54.4**	**44.8**

The trading profit rose by 21.4 %, significantly exceeding our 2004 goal. The development of the interest-related trading segments was particularly pleasing, as these areas more than doubled their profits despite falling interest rates. Equities and equity derivative trading did not quite match the outstanding result of 2003, but still fell within our plan figures, with a contribution of about 60 %. Foreign exchange trading was also positive, more than tripling profits from the weak 2003 result.

40 Total Administrative Expenses

€ million	2004	2003
Staff costs	163.4	146.7
Wages and salaries	131.1	116.8
Social security contributions	15.9	16.4
Retirement benefits	16.4	13.5
Other administrative expenses	73.5	66.9
Depreciation	13.1	13.3
on operational and business equipment	11.8	12.0
on property and buildings	1.3	1.3
Total	**250.0**	**226.9**

Total administrative expenses rose 10.2 % to € 250.0 million. Staff costs and other administrative expenses accounted for roughly equal proportions of this increase, which is largely due to the assumption of DAB Bank's securities settlement business. This led both to increased personnel requirements, particularly for securities settlement, and to additional costs associated with upgrading our IT capacities.

Personnel costs were also affected by increases in performance-related remuneration as a result of the higher operating profit.

It should be highlighted that, despite this roughly 10 % rise in total administrative costs, the 2004 cost income ratio of 67.0 % was significantly below our target figure of 70 % (2003: 71.2 %).

41 Other Income

€ million	2004	2003
Net profit/loss/write-offs arising from financial assets	21.8	- 2.0
Net profit/loss on disposal of property and equipment	0.2	0.2
Other operating income	5.8	7.0
Total	**27.8**	**5.2**

The profit/loss/write-offs arising from financial assets is chiefly made up of a € 18.5 million profit from the sale of our indirect 12.65 % holding in HSBC Guyerzeller Bank. The result also reflected realised profits from fixed-income securities totalling € 4.5 million, and from equities and investment certificates totalling € 2.3 million. These profits contrast with a negative valuation result of € 3.5 million.

Other operating income includes € 0.5 million from the writing-back of other provisions (2003: € 1.4 million) and € 1.7 million from rental income (2003: € 1.6 million). In-house programming work on the GEOS securities settlement system was capitalised at € 0.9 million (2003: € 0.5 million).

42 Other Expenses

€ million	2004	2003
Unscheduled depreciation of property and buildings	2.6	0.0
Other taxes	0.2	0.1
Other operating expenses	2.0	2.5
Total	**4.8**	**2.6**

The unscheduled real estate depreciation arose from an independent valuation taking into account the altered economic valuation of the location.

43 Income Taxes

€ million	2004	2003
Current taxes	27.3	63.1
Deferred taxes arising from changes in temporary valuation method differences	16.2	- 25.0
Deferred taxes arising from changes to tax rates	0.0	- 0.8
Total	**43.5**	**37.3**

Due to growing valuation differences between the commercial balance sheet per IFRS and the tax balance sheet, deferred taxes grew during 2004.

From 2004 onwards, the corporation tax rate for profits received and distributed will be 25 % (previous year, 26.5 %). 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 % as against 28.0 % in 2003. When trade income tax is also taken into account, combined taxes on income for 2004 were 40.4 % (previous year: 41.6 %), and this rate was also used in calculating deferred taxes.

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

€ million	2004	2003
Net income before tax	121.5	84.2
Imputed income tax on the year's net income before tax	**49.0**	**35.1**
Variation of tax rate on income from foreign companies	- 1.9	- 2.3
Corporation income tax deduction on dividends (EK 45/EK 40)	0.0	0.1
Effect of tax-free income and of non-deductible expenses pursuant to Article 8 b KStG	- 7.6	3.4
Other permanent differences	2.4	0.8
Change in deferred tax rate	0.0	- 0.8
Others	1.6	1.0
Reported tax on income	**43.5**	**37.3**

44 Development of the Profit and Loss Account

Calculation of Operating Profit

€ million	2004	2003	Change € million	Change %
Interest receivable	174.1	199.3	- 25.2	- 12.6
Interest payable	104.8	124.3	- 19.5	- 15.7
Net interest income	69.3	75.0	- 5.7	- 7.6
Risk provisions	1.6	7.7	- 6.1	- 79.2
Net interest income after risk provisions	67.7	67.3	0.4	0.6
Fees and commissions receivable	324.0	273.1	50.9	18.6
Fees and commissions payable	97.6	76.7	20.9	27.3
Net fees and commissions	226.4	196.4	30.0	15.3
Trading profit	54.4	44.8	9.6	21.4
Wages and salaries	131.1	116.8	14.3	12.2
Social security contributions and retirement benefits	32.3	29.9	2.4	8.0
Other administrative expenses	86.6	80.2	6.4	8.0
Total administrative expenses	250.0	226.9	23.1	10.2
Net other operating expenses and income	3.8	4.5	- 0.7	- 15.6
Operating profit	**102.3**	**86.1**	**16.2**	**18.8**
Other income/expenses (net)	19.2	- 1.9	21.1	-
Net pre-tax income	**121.5**	**84.2**	**37.3**	**44.3**
Taxes on income	43.5	37.3	6.2	16.6
Net profit	**78.0**	**46.9**	**31.1**	**66.3**

Operating profit includes the operating income and operating expenses posted under Other Income (Note 41) and Other Expenses (Note 42) respectively. A breakdown of operating profit by business segment is shown in the Segmental Reporting (Note 48).

45 Earnings per Share

	2004	2003
Net income € million	78.0	46.9
Profit attributable to minority shareholders € million	0.0	0.0
Net income after tax and minorities € million	78.0	46.9
Average number of shares in circulation, million	26.1	26.1
Earnings per share in €	2.99	1.80
Diluted earnings per share in €	2.99	1.80

As in 2003, there were no option and conversion rights outstanding for the purchase of shares. There was therefore no calculable dilution effect. This means that for the past two financial years, basic earnings per share have equalled diluted earnings per share.

46 Origin and Application of Value Added

Origin of value added € million	2004	2003
Operating income	350.1	316.2
Other operating income	3.8	4.5
Other administrative costs	- 86.6	- 80.2
Risk provisions	1.6	7.7
Net other income/expenses less other taxes	19.4	- 1.8
Value added	**285.1**	**231.0**

Operating income is made up of net interest income, net fees and commissions, and trading profit.

Application of value added	2004		2003	
	€ million	%	€ million	%
Human resources (staff costs)	163.4	57.3	146.7	63.5
Public sector (taxes)	43.7	15.3	37.4	16.2
Shareholders (dividends)	58.7	20.6	45.7	19.8
Profit attributable to minority interests	0.0	0.0	0.0	0.0
Company (reserves/profit carried forward)	19.3	6.8	1.2	0.5
Value added	**285.1**	**100.0**	**231.0**	**100.0**

The average value added per employee in the past financial year was € 180,000 as against € 150,000 (not including the net balance of other income and expenses) the year before.

Notes to the Cash Flow Statement

47 Position and Movements in Cash and Cash Equivalents

In addition to the balance sheet, profit and loss account, and the notes, IAS 7 requires all companies to draw up a cash flow statement. However, the value of the information it provides, as part of the annual accounts of financial institutions, is relatively limited. HSBC Trinkaus & Burkhardt's cash flow statement meets the standards required of financial institutions by the German Accounting Standards Committee (DRS 2-10). It shows movements in cash and cash equivalents arising from additions and disposals over the course of the business year.

The payment transactions of the business 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 in the trading portfolio at the reporting date, net additions to deferred taxes, changes in tax rebate claims, and profit attributable to minority shareholders, as well as income tax paid, interest received minus interest paid, and dividends received.

Cash and Cash Equivalents

As last year the cash and cash equivalents of € 157.9 million (2003: € 63.8 million) correspond to the 'Cash reserve balance sheet' item, which comprises cash in hand plus balances at central banks.

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 € 78.0 million (2003: € 46.9 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 € 75.4 million (2003: € 34.0 million). The cash flow from operating activities also takes into account changes in funds employed in operations.

Cash Flow from Investing Activities

Spending on property and equipment and intangible assets totalled € 16.8 million in 2004 (2003: € 12.5 million). As in 2003, the bulk of this expenditure went on upgrading our IT capacities. Sales of property and equipment and intangible assets realised € 0.9 million (2003: € 0.3 million) for the Group. In 2004, sales and purchases of financial investment instruments realised a net profit of € 63.9 million. The principle incoming payment in this respect came from the sale of our indirect holding in HSBC Guyerzeller Bank AG, Zürich.

Cash Flow from Financing Activities

Cash flow from financing activities includes the dividend of € 45.7 million (previous year: € 26.1 million) paid by HSBC Trinkaus & Burkhardt KGaA in 2004, in respect of the 2003 financial year.

Other Notes

48 Segment Reporting

The IAS 14 segmental reporting prepared by HSBC Trinkaus & Burkhardt also meets the standards required of financial institutions by the German Accounting Standards Committee (DRS 3-10). It provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions and should help them gain a more differentiated picture of the economic performance of a company.

The segmental reporting of the HSBC Trinkaus & Burkhardt Group is based on contribution to profits. This is a major component of our internal management information system (MIS). The MIS also serves as one of the Bank's central steering 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 consultancy and management services for larger private portfolios. In addition to general portfolio management and consultancy services, this involves special services such as advice on asset structuring, execution of wills and real estate advisory services. These services are provided at our head office, our branches and our subsidiary in Luxembourg.

Corporate Banking

The corporate banking division of HSBC Trinkaus & Burkhardt offers companies a wide spectrum of professional services tailored to meet individual needs. Besides various lending and deposit services, we provide a range of sophisticated specialised services such as interest and currency management, international business, securities business, portfolio management and corporate finance.

Institutional Clients

HSBC Trinkaus & Burkhardt provides its institutional clients, namely fund-gathering institutions, with major investment needs such as insurance companies, pension and investment funds and also banks, with a full range of traditional and modern investment and refinancing instruments, as well as solutions specifically tailored to individual clients.

Proprietary Trading

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

Central Divisions/Consolidation

In addition to overhead costs that cannot be unambiguously allocated to specific business divisions, Central Divisions/Consolidation includes profits from selected strategic asset and liability items that cannot be directly attributed to one particular division. As in the previous year, this segment includes the contribution earned from securities processing for financial services providers. It also includes extraordinary income and expenses, and adjustments to the consolidated results.

Here is the segmental reporting by division for the years 2004 and 2003:

€ million		Private Banking	Corporate Banking	Institu-tional Clients	Proprietary Trading	Central Divisions/ Consoli-dation	Total
Net Interest Income	2004	9.2	27.2	1.4	1.3	30.2	69.3
	2003	12.5	25.1	1.0	7.7	28.7	75.0
Risk provisions	2004	1.0	7.6	0.4	0.1	- 7.5	1.6
	2003	1.0	5.7	0.2	0.2	0.6	7.7
Net Interest Income after risk provisions	2004	8.2	19.6	1.0	1.2	37.7	67.7
	2003	11.5	19.4	0.8	7.5	28.1	67.3
Net fees and commissions	2004	56.7	69.8	80.5	0.6	18.8	226.4
	2003	56.8	62.0	63.2	1.3	13.1	196.4
Trading profit	2004	0.0	0.3	4.0	46.7	3.4	54.4
	2003	0.0	0.5	3.5	39.1	1.7	44.8
Income after risk provisions	2004	64.9	89.7	85.5	48.5	59.9	348.5
	2003	68.3	81.9	67.5	47.9	42.9	308.5
Total administrative expenses	2004	40.5	46.7	40.8	23.4	98.6	250.0
	2003	37.9	44.9	36.0	23.4	84.7	226.9
Net other operating expenses and income	2004					3.8	3.8
	2003					4.5	4.5
Operating profit	**2004**	**24.4**	**43.0**	**44.7**	**25.1**	**- 34.9**	**102.3**
	2003	**30.4**	**37.0**	**31.5**	**24.5**	**- 37.3**	**86.1**
Other income/expenses (net)	2004	6.3				12.9	19.2
	2003	0.0				- 1.9	- 1.9
Net pre-tax income	2004	30.7	43.0	44.7	25.1	- 22.0	121.5
	2003	30.4	37.0	31.5	24.5	- 39.2	84.2
Change from previous year, %		1.0	16.2	41.9	2.4	- 43.9	44.3

Segmental income is broken down into net interest income, net fees and commissions and trading profit. The difference between the standardised risk-related costs charged to the business segments (credit rating-related surcharges on drawings and on limits not utilised) and the risk costs in the profit and loss account is allocated to the Central Divisions. Wherever possible, total administrative expenses are charged to divisions according to the principle of causation, while unallocated overhead expenses are charged to the Central Divisions.

All four of the Bank's business divisions registered increased profits in 2004, with Institutional Investors achieving the greatest improvement. This success was chiefly due to our client solutions and the significant expansion of fixed income sales business. Meanwhile, the encouraging growth of Corporate Banking business can largely be put down to higher fees and commission from M&A business. Continuing pressure on margins meant that the volume growth in our lending business did not lead to correspondingly large rises in net interest income. Private Banking slightly exceeded last year's result. The sale in April of the holding in HSBC Guyerzeller Bank contributed a proportionate profit of € 6.3 million to the Private Banking result, but conversely, income from Guyerzeller investments and participations no longer contributed to the Private Banking net interest income. Portfolio and asset management fees rose as a result of pleasing acquisition successes, whereas commission from the placement of closed real estate funds was significantly down. In 2004, Proprietary Trading was able to build on the previous year's good result. Whereas minimal index fluctuation meant that, as expected, equity derivatives failed to repeat the high revenues achieved in 2003, fixed income, equity and foreign exchange trading all achieved significantly increased returns.

		Private Banking	Corporate Banking	Institutional Clients	Proprietary Trading	Central Divisions/ Consolidation	Total	Adjustments	Reporting date
Cost-income ratio,	2004	56.1	48.0	47.5	48.1		67.0		67.0
%	2003	54.7	51.3	53.2	48.6		71.2		71.2
Assets*,	2004	730.0	1,715.0	757.9	3,309.5	5,550.7	12,063.1	998.4	13,061.5
€ million	2003	777.0	1,471.0	651.9	3,449.3	4,964.3	11,313.5	- 501.8	10,811.7
Liabilities*,	2004	1,916.0	1,814.0	791.4	2,143.7	4,102.5	10,767.6	1,046.4	11,814.0
€ million	2003	2,000.0	1,771.0	670.2	2,609.7	3,089.2	10,140.1	- 517.0	9,623.1
Mandatory risk items*,	2004	945.8	2,636.4	312.5	239.5	2,258.0	6,392.2	46.8	6,439.0
€ million	2003	1,007.0	2,219.8	276.0	326.0	2,059.1	5,887.9	9.1	5,897.0
Equity capital allocated on-balance sheet*,	2004	120.9	205.4	89.2	85.6	124.6	625.7	177.0	802.7
€ million	2003	119.8	180.4	83.2	85.7	152.2	621.3	132.4	753.7
Staff	2004	184	165	166	85	1,021	1,621		1,621
	2003	177	148	166	83	962	1,525		1,525
Pre-tax return	2004	25.4	20.9	50.1	29.3		19.4		
on equity, %	2003	25.4	20.5	37.8	28.6		13.5		

*Annual average.

Personnel increases meant that total administrative expenses rose markedly in 2004. The principal reason for this was the successful takeover in July of DAB Bank’s securities settlement business. Furthermore, higher provisions had to be set up in almost all divisions to cater for increased performance-related remuneration as a result of the rising profits.

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 equity capital assigned on-balance sheet in the adjustment column also contains the valuation reserve for financial instruments and also the consolidated balance sheet profit.

The cost-income ratio reveals the ratio of total administrative expenses to income before risk provisions. It measures the division’s cost efficiency. This figure improved year-on-year in the Institutional Clients, Corporate Banking and Proprietary Trading divisions as a result of the disproportionate increase in profits, whereas it deteriorated slightly in the Private Banking division.

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 assignment of customers to each segment.

The rise in loans and advances to customers in the Corporate Banking and Institutional Clients divisions was accompanied by an expansion of mandatory risk items, while this reporting parameter diminished in importance with respect to Private Banking. In Proprietary Trading, the number of market risk items tying up equity capital was reduced.

In line with movements in operating profits, equity capital yield improved in the Institutional Clients, Corporate Banking and Proprietary Trading divisions, whereas it remained unchanged in the Private Banking division.

The secondary segmental reporting criterion is allocation to regions as determined by the domicile of the Group company concerned.

This reveals the following picture of our business activities:

€ million		Germany	Luxembourg	Others	Consoli-dation	Total
Net Interest Income	2004	52.1	17.2	0.0	0.0	69.3
	2003	50.0	21.4	3.6	0.0	75.0
Risk provisions	2004	2.1	- 0.5	0.0	0.0	1.6
	2003	7.7	0.0	0.0	0.0	7.7
Net fees and commissions	2004	208.5	15.6	2.3	0.0	226.4
	2003	179.4	14.4	2.6	0.0	196.4
Trading profit	2004	53.4	1.0	0.0	0.0	54.4
	2003	46.2	- 1.4	0.0	0.0	44.8
Total administrative expenses	2004	235.7	13.7	0.6	0.0	250.0
	2003	212.9	13.3	0.7	0.0	226.9
Net income before tax	2004	99.4	20.4	1.7	0.0	121.5
	2003	54.8	23.9	5.5	0.0	84.2
Cost: income ratio, %	2004	69.9	40.9	-	-	67.0
	2003	77.3	35.7	-	-	71.2
Mandatory risk items	31.12.2004	6,299.0	569.0	0.0	- 429.0	6,439.0
	31.12.2003	5,751.0	605.0	0.0	- 459.0	5,897.0
Balance sheet total	31.12.2004	12,749.5	1,604.3	1.7	- 1,032.4	13,323.1
	31.12.2003	10,323.7	1,751.6	2.0	- 1,089.6	10,987.7

49 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 parties in an arm's-length transaction.

Specifically, we calculate fair value as follows: values are based on the market prices, if available, listed on a stock market or other functioning market. The fair value of financial instruments is calculated using internal valuation models, in particular, the cash value calculation.

Assets/liabilities held-for-trading 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, excluding interbank funds, amounts receivable from customers and customer deposits, the following differences are noted between fair value and reported book value. By this criterion, the following picture of our business activities emerges:

€ million	31.12.2004 Fair value	Book value
Customer accounts (from the valuation of long-term borrower's note loans)	5,959.3	5,927.1
Debt securities in issue	18.8	16.9
Subordinated capital	297.5	273.2

50 Foreign Currency

On 31.12.2004, assets denominated in foreign currency totalled € 1,974.7 million (2003: € 1,138.5 million) and the corresponding liabilities totalled € 1,886.4 million (2003: € 1,215.2 million). As in 2003, the bulk of these assets and liabilities were in US dollars.

51 Details of Significant Concentrations of Assets and Liabilities

The Group's lending and deposit activities are well diversified. There is a good spread of sectoral risks, and as at 31.12.2004, there were no significant large exposures which could lead to a concentration of assets, liabilities or off-balance sheet business.

The following table shows the breakdown of credit volumes (as defined by the German Banking Act) by type of loan:

	31.12.2004		31.12.2003	
	€ million	%	€ million	%
Cash loans	6,922.2	51.6	5,110.0	43.8
Securities	3,119.3	23.2	3,338.6	28.6
Derivatives	1,726.5	12.9	1,662.8	14.2
Bank guarantees and L/Cs	1,114.1	8.3	1,009.9	8.7
Securities lending	473.2	3.5	452.6	3.9
Participations	64.6	0.5	100.2	0.8
Total	**13,419.9**	**100.0**	**11,674.1**	**100.0**

The breakdown of credit volumes by sector was as follows:

	31.12.2004		31.12.2003	
	€ million	%	€ million	%
Banks and financial institutions	7,467.4	55.6	6,639.4	56.9
Companies and economically independent professionals	3,436.9	25.6	3,022.1	25.9
Public sector	1,792.3	13.4	1,478.5	12.6
Economically non-independent private clients	723.3	5.4	534.1	4.6
Total	**13,419.9**	**100.0**	**11,674,1**	**100.0**

Classified by region, credit volumes to companies and economically independent professionals were as follows:

	31.12.2004		31.12.2003	
	€ million	%	€ million	%
Germany	2,939.2	85.5	2,516.1	83.3
Other European Union (including Norway and Switzerland)	337.6	9.8	365.3	12.1
Rest of Europe	5.5	0.2	1.7	0.1
Africa	9.1	0.3	6.6	0.2
North America	79.6	2.3	63.5	2.1
South America	62.1	1.8	66.6	2.2
Asia	3.6	0.1	1.4	0.0
Oceania	0.2	0.0	0.9	0.0
Total	**3,436.9**	**100.0**	**3,022.1**	**100.0**

Classified by size, credit volumes to companies and economically independent professionals were as follows:

	31.12.2004 € million	%	31.12.2003 € million	%
Up to € 500,000	0.0	0.0	64.9	2.1
>€ 500,000 to € 2,500,000	125.2	3.6	277.9	9.2
>€ 2,500,000 to € 5,000,000	500.5	14.6	362.8	12.0
>€ 5,000,000 to € 10,000,000	512.4	14.9	412.1	13.6
>€ 10,000,000 to € 25,000,000	722.1	21.0	805.8	26.7
>€ 25,000,000 to € 80,553,000* (previous year: € 65,108,000*)	890.3	25.9	610.5	20.2
Over € 80,553,000* (previous year: € 65,108,000*)	686.4	20.0	488.1	16.2
Total	**3,436.9**	**100.0**	**3,022.1**	**100.0**

* Large exposure credit limit as per German Banking Act.

Classified by credit rating, as explained in the section of this report entitled ‘Risk Management’, credit volumes to companies and economically independent professionals were as follows:

	31.12.2004 € million	%	31.12.2003 € million	%
Credit Rating 1–3	3,248.4	94.5	2,775.3	91.8
Credit Rating 4–5	139.9	4.1	170.3	5.7
Credit Rating 6–7	48.6	1.4	76.5	2.5
Total	**3,436.9**	**100.0**	**3,022.1**	**100.0**

52 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. 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 offsetting positions with the same counterparty. As there is no counterparty risk on exchange-traded products, the table below does not include the market values of these.

€ million		Nominal amounts with a residual maturity of			Nominal amounts	Nominal amounts
		up to one year	over 1 year to 5 years	over 5 years	2004 total	2003 total
OTC products	FRAs	109	15	0	124	156
	Interest rate swaps	6,780	16,726	11,748	35,254	38,701
	Interest rate options – purchases	1,340	3,195	2,574	7,109	9,962
	Interest rate options – sales	436	3,402	4,470	8,308	8,049
	Forward transactions	138	60	0	198	180
Exchange-traded products	Interest rate futures	0	0	4,937	4,937	3,316
	Interest rate options	18	0	0	18	0
Interest rate business		**8,821**	**23,398**	**23,729**	**55,948**	**60,364**
OTC products	Forward exchange contracts	14,979	681	0	15,660	12,393
	Cross-currency swaps	967	338	0	1,305	143
	Currency options – purchases	958	530	0	1,488	913
	Currency options – sales	54	219	0	273	848
Exchange-traded products	Foreign exchange futures	0	0	44	44	0
Currency business		**16,958**	**1,768**	**44**	**18,770**	**14,297**
OTC products	Equity/index options – purchases	27	17	0	44	92
	Equity/index options – sales	2	1	0	3	0
Exchange-traded products	Equity/index futures	0	0	428	428	134
	Equity/index options	2,990	2,359	76	5,425	3,392
Equity/index business		**3,019**	**2,377**	**504**	**5,900**	**3,618**
OTC products	Credit default swaps – purchases	0	15	0	15	0
	Credit default swaps – sales	0	10	0	10	0
Credit business		**0**	**25**	**0**	**25**	**0**
Total financial derivatives		**28,798**	**27,568**	**24,277**	**80,643**	**78,279**

€ million		Positive market with a residual maturity of			Market values Positive	Market values Negative	Market values Positive
		up to one year	over 1 year to 5 years	over 5 years	2004 total	2004 total	2003 total
OTC	FRAs	0	0	0	0	0	0
products	Interest rate swaps	55	532	604	1,191	1,283	981
	Interest rate options – purchases	16	89	101	206	0	183
	Interest rate options – sales	0	0	0	0	254	0
	Forward transactions	0	0	0	0	0	0
Interest rate business		**71**	**621**	**705**	**1,397**	**1,537**	**1,164**
OTC	Forward exchange contracts	423	37	0	460	487	419
products	Cross-currency swaps	5	1	0	6	34	9
	Currency options – purchases	58	21	0	79	0	30
	Currency options – sales	0	0	0	0	2	0
Currency business		**486**	**59**	**0**	**545**	**523**	**458**
OTC	Equity/index options – purchases	12	3	0	15	0	82
products	Equity/index options – sales	0	0	0	0	11	0
Equity/index business		**12**	**3**	**0**	**15**	**11**	**82**
OTC	Credit default swaps – purchases	0	0	0	0	0	0
products	Credit default swaps – sales	0	0	0	0	0	0
Credit business		**0**	**0**	**0**	**0**	**0**	**0**
Financial derivatives total		**569**	**683**	**705**	**1,957**	**2,071**	**1,704**

Breakdown of Market Values by Counterparty

The replacement costs of OTC derivatives from Proprietary Trading are broken down according to counterparty, in order to analyse possible default scenarios:

		31.12.2004		31.12.2003	
		€ million	%	€ million	%
OECD	Central governments	0	0.0	0	0.0
	Banks	1,660	84.8	1,475	86.6
	Financial institutions	73	3.7	24	1.4
	Others	218	11.2	188	11.0
Non-OECD	Central governments	0	0.0	0	0.0
	Banks	4	0.2	15	0.9
	Financial institutions	0	0.0	0	0.0
	Others	2	0.1	2	0.1
Total		**1,957**	**100.0**	**1,704**	**100.0**

53 Market Risk

HSBC Trinkaus & Burkhardt calculates market risk using a value-at-risk approach. This calculates, on the basis of an assumed holding period of ten trading days and a confidence level of 99 %, the following value-at-risk figures.

€ million	31.12.2004	31.12.2003
Interest rate contracts	5.3	5.2
Currency business	0.7	0.4
Equity and index-linked business	3.1	4.1
Total potential market risk	**6.1**	**6.0**

Potential market risk in relation to all market risk categories is calculated according to a standardised internal model. The fact that risk-reducing correlations are taken into account means that the total potential market risk is less than the sum of the risks in each risk category.

54 Maturity Profile by Remaining Period to Maturity

Receivables, € million		Up to 3 months	> 3 months to 1 year	> 1 year	Total
Term loans and advances	31.12.2004	1,639.7	34.7	0.3	**1,674.7**
to banks	31.12.2003	908.6	152.2	0.2	**1,061.0**
Loans and advances	31.12.2004	2,058.7	426.8	151.2	**2,636.7**
to customers	31.12.2003	1,964.4	182.5	217.8	**2,364.7**
Total	**31.12.2004**	**3,698.4**	**461.5**	**151.5**	**4,311.4**
	31.12.2003	**2,873.0**	**334.7**	**218.0**	**3,425.7**

Liabilities, € million		Up to 3 months	> 3 months to 1 year	> 1 year	Total
Term deposits by banks	31.12.2004	413.0	15.5	44.5	**473.0**
	31.12.2003	488.0	6.2	67.3	**561.5**
Other term deposits by customers	31.12.2004	2,049.0	200.7	283.1	**2,532.8**
	31.12.2003	1,590.6	180.5	566.7	**2,337.8**
Debt securities in issue	31.12.2004	5.0	1.2	10.7	**16.9**
	31.12.2003	1.5	154.9	24.7	**181.1**
Subordinated capital	31.12.2004	0.0	0.0	273.2	**273.2**
	31.12.2003	0.0	40.9	199.3	**240.2**
Total	**31.12.2004**	**2,467.0**	**217.4**	**611.5**	**3,295.9**
	31.12.2003	**2,080.1**	**382.5**	**858.0**	**3,320.6**

55 Contingent Liabilities and Other Obligations

€ million	31.12.2004	31.12.2003
Contingent liabilities	**1,114.1**	**1,009.9**
from discounted bills of exchange	0.0	0.0
from guarantees and indemnity agreements	1,114.1	1,009.9
Other obligations	**2,432.2**	**1,942.9**
irrevocable loan commitments	2,432.2	1,942.9
Total	**3,546.3**	**2,952.8**

As before, there are no obligations in respect of unpaid share capital relating to investments. The contingent liabilities arising from shares in cooperatives remained unchanged from the previous year, at € 0.2 million.

Our liability to make further contributions arising from our interest in Liquiditäts-konsortialbank GmbH was also unchanged, at € 3.7 million. This is linked to a guarantee for the fulfilment of further contribution obligations directly enforceable on the other shareholders, who are members of the National Association of German Banks (Bundesverband deutscher Banken e. V. ~ BdB).

On the balance sheet date, commitments arising from leasing and rental contracts totalled 35.9 € million (2003: 42.3 € million):

€ million	31.12.2004	31.12.2003
1 year or less	17.9	17.2
of which: leasing	6.8	5.8
> 1 year to 5 years	16.9	23.1
of which: leasing	7.1	10.9
Over 5 years	1.1	2.0
of which: leasing	0.0	0.0
Total commitments from rental and leasing contracts	**35.9**	**42.3**

56 Assets Pledged as Collateral

Securities with a nominal value of € 392.8 million (2003: € 416.4 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 € 1,272.7 million were available to secure peak rediscounting facilities (2003: € 1,483.6 million).

57 Trust Activities

IAS 30.55 stipulates that trust activities may not be shown on a bank's balance sheet. As an indication of the extent of our potential liability, the following table shows the value of off-balance-sheet trust activities:

€ million	31.12.2004	31.12.2003
Trust assets	**314.0**	**176.8**
Loans and advances to banks	0.1	0.1
Loans and advances to customers	189.1	102.4
Participations	124.8	74.3
Trust liabilities	**314.0**	**176.8**
Deposits by banks	63.3	37.0
Customer accounts	250.7	139.8

58 Participating Interests

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

Company	Domicile	Share of equity capital in %	Company's total equity capital € 000s	Net earnings in 2004 in € 000s
Banks and bank-like companies				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	41,340
HSBC Trinkaus & Burkhardt (International) SA	Luxembourg	100.0	76,467	11,609
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	1,515	1,383
Internationale Kapitalanlage-gesellschaft mbH	Düsseldorf	100.0	8,260	6
HSBC Trinkaus Capital Management GmbH	Düsseldorf	100.0	2,601	6,435
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	3,368	639
Companies with special mandates				
HSBC Trinkaus & Burkhardt Immobilien GmbH	Düsseldorf	100.0	167	- 211
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	10	50
HSBC Trinkaus Privatimmobilien GmbH	Düsseldorf	100.0	25	29
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	18	- 7
Trinkaus Europa Immobilien-Fonds Nr. 1 GmbH	Düsseldorf	100.0	112	5
Trinkaus Europa Immobilien-Fonds Nr. 2 GmbH	Düsseldorf	100.0	61	4
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	59	4
Trinkaus Canada Immobilien-Fonds Nr. 1 Verwaltungs-GmbH	Düsseldorf	100.0	50	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	288	561
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,230	632
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	96.5	11,940	813
Joachim Hecker Grundbesitz KG	Düsseldorf	100.0	7,454	246
Dr. Helfer Verwaltungsgebäude Luxembourg KG	Düsseldorf	100.0	767	235
Other companies				
HSBC Bond Portfolio Geschäftsführungs GmbH	Frankfurt a. M.	100.0	61	9
HSBC Trinkaus Consult GmbH	Düsseldorf	100.0	226	1
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	263	1
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	23	- 1

HSBC Trinkaus & Burkhardt KGaA also has an indirect 17.9 % holding in Sino AG, Düsseldorf, which has total equity of € 3,192,000 and net income of € 614,000 (to 30.9.2004 due to the company's unusual financial year).

59 Letter of Comfort

HSBC Trinkaus & Burkhardt KGaA undertakes to ensure that all fully consolidated companies of the Group are in a position to fulfil their contractual obligations. For a complete list of these companies, please refer to the table of participating interests held by HSBC Trinkaus & Burkhardt KGaA given in Note 58 above.

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

60 Staff

Annual average	2004	2003
Staff outside Germany	125	112
Staff in Germany	1,462	1,425
Total (including trainees)	**1,587**	**1,537**
of whom:		
Women	688	671
Men	899	866

61 Business Relationships with Companies and Persons Defined as "Connected Parties"

In the normal course of business, transactions are entered into on standard market terms and conditions with companies and persons defined as "connected parties".

HSBC Trinkaus & Burkhardt KGaA has cooperation and agency agreements with various companies of the HSBC Group. The consolidated profit and loss account includes € 55.3 million of income and € 2.2 million of expenses for transactions with HSBC Holdings plc, London, and its affiliated companies.

Emoluments of and Loans & Advances to Members of the Executive Bodies of HSBC Trinkaus & Burkhardt

The Managing Partners' emoluments in the 2004 financial year totalled € 10,171,148.30 (2003: € 6,506,757.45). These comprise contractually agreed fixed and performance-related remuneration components. During the year under review, 78.0 % of total emoluments comprised performance-related components.

Subject to approval of the proposed appropriation of profit by the Annual General Meeting on 7 June 2005, the emoluments of the Supervisory Board for 2004 (after its expansion to 15 members) will be € 812,000 (2003: € 563,760) and the emoluments of the Shareholders' Committee will be € 293,480 (2003: € 229,680). Payments to both Supervisory Board and Shareholders' Committee members are governed by the same provisions of the Articles of Association. The payments are predominantly performance-related, and are linked to dividend percentages. Of the total emoluments of the Supervisory Board and the Shareholders' Committee, 93.5 % were performance-related. During 2004, fees amounting respectively to € 31,900, € 53,378.88 and € 120,350 were paid to three members of the Supervisory Board for consultancy services rendered. Members of the Advisory Board received emoluments totalling € 327,000.00 (2003: € 356,700.00).

As at 31.12.2004, loans of € 424,789.11 and advances of € 15,806.89 respectively, had been made to members of the Supervisory Board at normal market rates (2003: € 44,255.33). As in the previous year, there were no commitments to third parties in favour of members of the Bank's executive bodies.

Pension payments to retired Managing Partners of HSBC Trinkaus & Burkhardt KGaA and its legal predecessor Trinkaus & Burkhardt KG totalled € 4,018,450.14 (2003: € 3,218,334.72). Reserves totalling € 43,192,273.00 (2003: € 27,847,307.00) have been set aside to cover pension commitments to former Managing Partners and their surviving dependants.

62 Statement on the German Corporate Governance Code pursuant to Article 161 AktG

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

63 Mandates held by Managing Partners

The Managing Partners of HSBC Trinkaus & Burkhardt KGaA sit on the following
a) statutory supervisory boards and
b) comparable management bodies:

Andreas Schmitz	a) none b) HSBC Trinkaus Capital Management GmbH, Düsseldorf [1] L-Bank, Karlsruhe
Paul Hagen	a) Council Member der EUREX Deutschland, Frankfurt am Main b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1] HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg (Deputy Chairman) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1] RWE Trading GmbH, Essen
Dr. Olaf Huth	a) none b) HSBC Guyerzeller Bank AG, Zürich [2] HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg (Chairman) [1] HSBC Trinkaus Capital Management GmbH, Düsseldorf [1] HSBC Trinkaus Investment Managers S.A., Luxembourg (Deputy Chairman) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Carola Gräfin von Schmettow	a) DBV Winterthur Lebensversicherung, Wiesbaden b) HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg [1] HSBC Trinkaus Capital Management GmbH, Düsseldorf (Chair) [1] HSBC Trinkaus Investment Managers S.A., Luxembourg (Chair) [1] Internationale Kapitalanlagegesellschaft mbH, Düsseldorf (Chair) [1] Board member of HSBC Asset Management (Europe) S.A., Paris [2]

[1] HSBC Trinkaus & Burkhardt Group.

[2] HSBC Holdings plc Group.

64 Mandates held by Other Employees

The following Group employees sit on

a) statutory supervisory boards and

b) comparable management bodies listed below:

Dr. Rudolf Apenbrink	a) none b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Jürgen Berg	a) none b) HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg [1]
Norbert Böhm	a) none b) HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf (Chairman) [1]
Gerhard Fastenrath	a) Falkenstein Nebenwerte AG, Hamburg b) none
Manfred Krause	a) none b) Internationale Kapitalanlagegesellschaft mbH, Düsseldorf [1]
Jörg Meier	a) none b) HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg [1]
Rolf Nähr	a) none b) HSBC Trinkaus Investment Managers S.A., Luxembourg [1]
Bernd Naujoks	a) none b) HSBC Trinkaus Privatimmobilien GmbH, Düsseldorf (Deputy Chairman) [1]
Manfred Pohle	a) none b) HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg [1] HSBC Trinkaus Investment Managers S.A., Luxembourg [1]
Hans-Joachim Rosteck	a) none b) HSBC Trinkaus Investment Managers S.A., Luxembourg [1]
Ulrich W. Schwittay	a) none b) HSBC Trinkaus & Burkhardt Immobilien GmbH, Düsseldorf (Deputy Chairman) [1]

[1] HSBC Trinkaus & Burkhardt Group.

65 Other mandates held by Supervisory Board Members

The members of our Supervisory Board also sit on

a) the statutory supervisory boards and

b) the comparable management bodies listed below:

Herbert H. Jacobi	a) DIC Deutsche Investors' Capital AG, Düsseldorf (Chairman) Madaus AG, Cologne (Chairman) WILO AG, Dortmund b) Board member of The Gillette Company, Boston
Dr. Sieghardt Rometsch	a) APCOA Parking AG, Stuttgart (Chairman) b) Düsseldorfer Universitätsklinikum, Düsseldorf HSBC Bank Polska S.A., Warschau [2] Management Partner GmbH, Stuttgart Board member of HSBC Private Banking Holdings (Suisse) S.A., Geneva[2]
Stephen Green	a) none b) Member of the Board bei folgenden Gesellschaften: CCF S.A., Paris [2] HSBC Asset Management Limited, London (Chairman) [2] HSBC Bank plc, London (Chairman) [2] HSBC Holdings plc, London [2] HSBC Private Banking Holdings (Suisse) S.A., Geneva [2] HSBC North America Inc., New York (Deputy Chairman) [2] HSBC Bank Middle East Limited, Jersey [2] The Hong Kong & Shanghai Banking Corporation Limited, Hong Kong SAR [2]
Dr. h.c. Ludwig Georg Braun	a) Stihl AG, Waiblingen b) Aesculap AG & Co. KG, Tuttlingen B. Braun Holding AG, Emmenbrücken [4] B. Braun Medical S.A.S., Boulogne-Billancourt [4] B. Braun Medical S.A., Barcelona [4] B. Braun Milano S.p.A., Mailand [4] B. Braun Austria Ges.m.b.H., Wien [4] IHK Gesellschaft für Informationsverarbeitung mbH, Dortmund (Chairman) Landesbank Hessen-Thüringen Girozentrale, Frankfurt a.M./Erfurt Universitätsklinikum Gießen, Gießen Wilh. Werhahn, Neuss Board member of B. Braun of America Inc., Bethlehem [4]

Charles-Henri Filippi	a) none b) Board member of the following companies: Altadis S.A., Madrid CCF S.A., Paris [2] HSBC Bank plc, London [2] SEITA S.A., Paris
Wolfgang Haupt	a) Trinkaus Private Equity Pool I 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) b) BVV Versorgungskasse des Bankgewerbes e.V., Berlin BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Dr. Otto Graf Lambsdorff	a) D.A.S. Allgemeine Rechtsschutz-Versicherungs-AG, Munich Iveco Magirus AG, Ulm (Chairman) Deutsche Lufthansa AG, Frankfurt a. Main/Cologne NSM Löwen-Entertainment GmbH, Bingen am Rhein (Chairman) b) none
Professor Dr. Ulrich Lehner	a) E.ON AG, Düsseldorf b) Novartis AG, Basel Board member of the following companies: Ecolab Inc., St. Paul Henkel of America, New York (Chairman) Henkel Corp., Gulph Mills (Chairman) The DIAL Company, Scottsdale (Chairman)
Dr. Christoph Niemann	a) Hannoversche Lebensversicherung a. G., Hanover Baader Wertpapierhandelsbank AG, Munich (Deputy Chairman) b) Board member of MASAÏ, Paris
Dietmar Sauer	a) Baden-Württembergische Bank AG, Stuttgart [3] Karlsruher Lebensversicherung AG, Karlsruhe LEG, Landesentwicklungsgesellschaft Baden-Württemberg mbH, Stuttgart (Chairman) [3] SüdPrivate Equity Management GmbH & Co. KGaA, Stuttgart Wieland-Werke AG, Ulm Württembergische Lebensversicherung AG, Stuttgart Wüstenrot & Württembergische AG, Stuttgart Wüstenrot Bank AG, Ludwigsburg Wüstenrot Holding AG, Ludwigsburg b) DekaSwiss Privatbank AG, Zürich DekaBank Deutsche Girozentrale, Frankfurt am Main Landesbank Rheinland-Pfalz, Mainz

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

Discussion of Accounting, Valuation and Consolidation Methods Differing from German GAAP

There are significant differences between consolidated financial statements prepared on the basis of IFRS and those prepared according to German GAAP (principles defined in the German Commercial Code). The underlying principle of financial statements based on German GAAP is the protection of creditors. This can lead to the creation of extensive hidden reserves as a result of very conservative valuation rules. By contrast, the IFRS are oriented to the needs of the capital markets, and their primary goal is to provide information relevant to the decision-making process, in particular for investors. The idea is that, in line with the principle of utility, the company should provide information which facilitates optimum economic decision-making.

Below, we list the major differences between financial statements prepared in accordance with IFRS and those prepared on the basis of German GAAP. The major differences between IFRS and German GAAP accounting and valuation methods, as applied to HSBC Trinkaus & Burkhardt, are set out below. Please consult the corresponding note for more detailed explanations.

Derivative financial instruments held for trading.

Derivative transactions remaining unsettled on the balance sheet date are posted to the balance sheet at their respective market values. Positive market values appear under ‘financial assets held for trading’ and negative values under ‘financial liabilities held for trading’. The IFRS include profit and loss from derivatives trading in the trading profit, regardless of whether the transaction has been realised or not, whereas German GAAP do not recognise unrealised gains from derivative financial instruments. Moreover, German GAAP provide for the creation of provisions for potential losses for negative market values arising from outstanding derivative financial instruments. However, current opinion holds that German GAAP also allows such provisions to be dispensed with, if the value can be offset through the creation of valuation units.

Trading profit

In contrast to German GAAP, trading profits shown in the profit and loss account include unrealised gains or losses from trading activities. Another distinction from German GAAP is that trading-related interest and dividend income – shown as the difference between the interest and dividend revenue of trading positions and the refinancing interest – is counted as trading profit.

Deferred taxes

Under IFRS, deferred taxes are calculated using the temporary differences concept, which relies on balance sheet data. The valuations of individual balance sheet assets and liabilities are compared to standard values for tax purposes. Deferred tax claims or deferred tax liabilities result from temporary differences in the valuations. Under German GAAP, deferred taxes are calculated using data from the profit and loss account. Deferred taxes result from timing differences between the profit, as calculated for commercial purposes on the one hand, and profit calculated for tax purposes on the other.

Securities (including registered bonds) and borrower's note loans

Depending on the intended holding period, securities (including registered bonds) and borrower's note loans are posted under financial assets held for trading, or financial assets. All financial assets are shown in the category "available for sale". Both items are reported and valued at their market values. Financial assets appear on the balance sheet at amortised costs, (i.e., existing premiums and discounts are shown under net interest income using the effective interest rate method to final maturity). Valuation differences between the market value and the amortised costs are shown under equity capital (revaluation reserve for financial instruments), with no effect on profits. The results of changes in the market values of financial assets held for trading flow directly into trading profit. Under German GAAP, securities held for trading and as a liquidity reserve are subject to the strict lower-of-cost-or-market principle. Registered bonds and borrower's note loans are carried under loans and advances at amortised costs.

Intangible assets

Though prohibited under German GAAP, IFRS, under certain circumstances, requires the capitalisation of internally generated intangible fixed assets. As a result, in both 2003 and 2004, programming work carried out by the Bank to upgrade the securities settlement system was shown on the balance sheet.

Pension obligations

According to German GAAP, provisions for pensions are usually calculated using a valuation method which is specified in German income tax law. The calculation of pension obligations under IFRS is made by applying actuarial principles from a commercial perspective. These valuations must be performed annually on the basis of expected salary rises, anticipated pension adjustments, current mortality tables, staff turnover and market interest rates.

Trust activities

In contrast to German GAAP, trust activities which we carry out in our own name but on third-party account are not disclosed on the balance sheet. The Bank's trust activities are explained in the Notes.

Consolidation methods

In preparing our IFRS statements, we did not use any consolidation methods that differ greatly from German GAAP.

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, as well as the notes to the financial statements prepared by HSBC Trinkaus & Burkhardt KGaA for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Managing Partners. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations 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 assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. 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 evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year, in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Managing Partners for the business year from 1 January to 31 December 2004, has not led to any reservations. In our opinion, on the whole, the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2004, satisfy the conditions required for the Company’s exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Düsseldorf, 16 February 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Kügler
German Public Auditor	German Public Auditor

Report of the Supervisory Board

Governance

During 2004, the Supervisory Board held four meetings at which it received comprehensive reports from the Managing Partners on business progress at the Bank, its major subsidiaries and in the individual lines of business. At each meeting these reports covered results for the financial year to date, together with comparisons of those results with the relative plan figures and with the same period the previous year. The regular reports to the Board also covered the significant events of 2004, in particular the sale of the indirect holding in HSBC Guyerzeller Bank, the assumption of securities settlement business for DBA Bank and also the establishment of a securities settlement joint venture with T-Systems International. The Board paid particular attention to the effects of interest rate and capital market trends, to the progress of the Bank's revenues, and to risk policy and risk control systems in the lending and trading business.

At one meeting the Supervisory Board discussed at length the Bank's strategic positioning, its intended business policies, as well as basic issues of corporate planning for 2005. To this end the Board was furnished with the information on planning principles and objectives necessary for its deliberations and decision-making. In particular the Board was informed, based on the Managing Partners' economic assumptions for the business year and on expectations for interest rate and capital market trends, about the profit targets of the various business areas, the anticipated development of personnel costs and other operating costs, and also about planned investments.

The external auditors attended two Board meetings: the one in which the financial statements for the previous year, including the Bank's profitability in terms of return on equity, were discussed, and the one where the decision was made on the appointment of the external auditors for the closing audit of the annual financial statements and consolidated accounts. Before contracting the auditors, the Board was given detailed information on the objectives, methods and focal points of their audit plan.

Credit, Audit, Compliance

The Board has set up from among its number a Supervisory Board Credit Committee with three members. The Committee met four times during the 2004 financial year, and made decisions on connected party loans by the Bank to individuals and companies.

There are also two sub-committees of the Shareholders' Committee, the Shareholders' Committee Credit Working Party and the Audit Committee.

The Credit Working Party has three members. It is in continuous session, making decisions on loans and on credit limits within the Bank's lending business, and on the necessary approval levels.

The Audit Committee of the Shareholders' Committee has three members and meets twice a year. These meetings are attended by the Managing Partners and the external auditors. The Committee reviews the results of internal and external audits, and receives information on the observance of compliance rules and regulations as well as on measures taken to combat money laundering.

Corporate Governance

At its meeting on 8 December 2004 the Supervisory Board discussed the amendment of the German Corporate Governance Code to comply with the new formulation of Article 15 of the German Securities Trading Act (Wertpapierhandelsgesetz ~ WpHG). The Declaration of Conformity pursuant to Article 161 of the German Stock Corporation Act (Aktiengesetz ~ AktG) was duly made, and the points of divergence from the Corporate Governance Code of the Government Commission are listed and explained in the Corporate Governance Report for 2004.

In its efficiency examination, the Supervisory Board concluded that in view of the individual professional qualifications of its members it had no concerns as to their suitability. Its efficiency as an executive body of the Bank under company law was examined through a comparison of the findings of the external auditors and with the information presented by individual Managing Partners in the various Supervisory Board meetings, and with the measures resolved upon.

The information given to the Board satisfied all legal requirements and indeed, particularly with regard to the amount of risk information provided and to the supplementary presentations on new products and services and about the activities of selected business areas, exceeded the requirements of the German Stock Corporation Act. In light of this the Supervisory Board concluded that suitably comprehensive information had been provided. The external auditors' report contained no findings which had not previously been reported on and examined in Supervisory Board meetings. Accordingly the Supervisory Board concluded that it had carried out its business efficiently in 2004.

During 2004 no conflicts of interest arose between the Bank and members of the Supervisory Board or third parties for whom any member of the Supervisory Board had acted in an advisory or executive capacity.

The current version of the Corporate Governance Code and the current Declaration of Conformity were published on the Bank's website at the end of 2004.

Financial Statements

The Board has examined and approved the Bank's annual financial statements for the year ended 31 December 2004, as well as the 2004 Management Report and the proposal of the Managing Partners for the appropriation of profit. KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, (KPMG) were appointed as external auditors to the Bank and its group of companies at the Annual General Meeting on 8 June 2004. On 21 July 2004, they were mandated by the Board to audit the annual financial statements and consolidated accounts. KPMG have audited the Bank's books, its annual accounts, and the Management Report for the year ended 31 December 2004, and have given their unqualified audit opinion. The audit report was submitted to the Board and no objections were raised.

The consolidated accounts for the year ending 31 December 2004 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code. These accounts were also audited by KPMG and given an unqualified opinion. The consolidated accounts and the audit report were submitted to the Board and duly approved.

Dealings with Affiliated Companies

In compliance with Article 312, German Stock Corporation Act (AktG), the Managing Partners have prepared a report on the Bank's dealings with affiliated companies for the 2004 financial year. The auditors have issued the following certification of this report in accordance with Article 313 of the above Act: "Following our statutory examination and evaluation performed in accordance with professional standards, we hereby confirm that (1) the factual content of the report is correct; (2) the payments made by the Company in the transactions listed in the report were not inappropriately high." The Board examined and noted with approval this report.

Personnel Changes on the Supervisory Board

After Messrs. Herbert H. Jacobi and Wolfgang von Waldthausen stepped down from the Supervisory Board at the end of the Annual General Meeting of 8 June 2004, Dr. Sieghardt Rometsch and Mr. Harold Hörauf were appointed as the new Supervisory Board members by the AGM.

On 8 June 2004 the AGM also resolved to increase the size of the Supervisory Board from 12 to 15 members. Accordingly Dr Ludwig Georg Braun and Professor Ulrich Lehner were appointed by the AGM as the shareholders' representatives on the Supervisory Board. Ms. Deniz Erkman had been elected to the Supervisory Board as employees' representative on 26th May 2004.

By resolution of the Supervisory Board, on 8 June 2004 Dr. Sieghardt Rometsch was appointed new Supervisory Board Chairman, and in acknowledgement of his great services to the Bank Mr. Herbert H. Jacobi was appointed Honorary Chairman of the Supervisory Board.

Thanks

The Supervisory Board would like to thank Mr. Herbert H. Jacobi. After his time as Chairman of the Managing Partners from 1981 to 1998, he has served for the past six years as Supervisory Board Chairman.

The Supervisory Board would also like to thank Mr. Wolfgang von Waldthausen, who has been a member of the Bank's Supervisory Board since 1990 after many previous years of service as a Managing Partner.

The Supervisory Board would also like to take this opportunity to thank Mr Colin Kirkby for his frank and helpful work as a member of the Shareholders' Committee from 1993 to 2004.

The Supervisory Board would also like to thank the Managing Partners for their contribution, and we would also like to express our special thanks to the Bank's employees, whose work has contributed crucially to the Bank's success over the past year.

Düsseldorf, February 2005

The Supervisory Board

Dr. Sieghardt Rometsch

Chairman

Corporate Governance

Corporate Governance an integral part of our corporate culture

Corporate Governance Report 2003

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

The special nature of the Partnership Limited by Shares

HSBC Trinkaus & Burkhardt is a bank with the legal form of a Partnership Limited by Shares (KGaA). It is run by personally liable Managing Partners, and overseen by the Supervisory Board. The Supervisory Board has 15 members, five of whom are chosen from the workforce in accordance with the 1952 German Works Constitution Act (Betriebsverfassungsgesetz).

As well as the Supervisory Board with its monitoring function, the Bank has a further executive body in the Shareholders' Committee. The Shareholders' Committee is elected by the Annual General Meeting of Shareholders, and has four members. It represents the limited liability shareholders and the company itself vis-á-vis the Managing Partners, in particular with regard to the negotiation of their contracts of employment.

This special corporate legal structure of HSBC Trinkaus & Burkhardt and our character as a private bank necessitate adjustments to the Corporate Governance Code, which is drawn up to fit the model of the large quoted public limited company. Thus our legal form as a KGaA and our Articles of Association (Satzung) have the effect not only of replacing the management board with an executive body composed of Managing Partners, but also (and most importantly) of requiring the modification of clauses 5.1.2 and 5.3.2 of the recommendations of the Government Commission in relation to the assignment of constitutional authorities of our executive bodies; these do not involve any material divergence from the fundamental regulatory model set out in the Corporate Governance Code.

There is no limitation on the number of former Managing Partners who may sit on our Supervisory Board, nor any limitation on the age of Supervisory Board members; to this extent we have not adopted the recommendations of the Government Commission contained in clauses 5.4.1 and 5.4.2 of the Corporate Governance Code.

We have taken this decision in light of our Bank's status as a private bank whose most fundamental strategic characteristic is the long-term and personal nature of the Managing Partners' client relationships. Their transition from the executive management of the Bank to the Supervisory Board prevents the disruption of client relations and ensures continuity, for which the former Managing Partners also stand surety as members of the Supervisory Board.

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

Remuneration structures

In line with our Articles of Association the remuneration of the Managing Partners is laid down in contracts of employment which the Bank, represented by the Shareholders' Committee, concludes individually with the various Managing Partners. The remuneration of the Managing Partners comprises a fixed salary element plus a share of profits. There are no share option schemes or similar structures with long-term incentive effects.

The fixed salary element is determined by reference to current market standards for banks in Germany.

The aggregate profit share distributed among the Managing Partners is limited by the Articles of Association. The structure of individual profit-sharing is determined by the Managing Partner's individual employment contracts, and depends on the size of a given year's consolidated net profit according to IFRS, less a defined return on equity and any profit on disposal of specific investments.

Diverging from the recommendations contained in clause 4.2.4 of the Corporate Governance Code, the Bank reports the remuneration of all Managing Partners in the annual report and accounts as a single aggregate amount. In so doing we satisfy investors' legitimate interests in the provision of relevant capital market information. However, we shall continue to observe attentively the extent to which the individualised disclosure of management remuneration, as recommended by the Government Commission, establishes itself as market standard.

For the same reasons, in our annual report and accounts we also report the remuneration of Supervisory Board and Shareholders' Committee members as respective aggregate amounts.

The remuneration structure for members of the Supervisory Board and of the Shareholders' Committee is governed in the Articles of Association and is identical for both bodies. Each Supervisory Board and Shareholders' Committee member is thereby entitled to receive fixed remuneration plus variable remuneration of € 1,000 for every 5 cents of dividend distributed per share in excess of 10 cents per share. The chairman receives double this sum and the deputy chairman 50 % more. Membership and chairmanship of the committees of the Supervisory Board and Shareholders' Committee attract no special remuneration, since any such payments are not provided for in the Articles of Association. Sundry other remuneration paid or benefits granted to members of the Supervisory Board or of the Shareholders' Committee (for instance consultancy fees) are reported individually, though without mentioning actual names in order to preserve due privacy. Accordingly we have adopted a modified form of the Government Commission recommendation contained in clause 5.4.5 of the Corporate Governance Code.

Information, disclosure and transparency

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

Further disclosure obligations are embodied in clause 6.6 of the Corporate Governance Code. These concern the disclosure of transactions in securities or the Bank's rights as the issuer, as well as in related derivatives. The group of entities which are subject to these disclosure obligations, and also the relevant threshold amounts, have in some cases been significantly changed by the amended version of § 15 a of the Securities Trading Act (WpHG) via the Investor Protection Improvement Act (Anlegerschutzverbesserungsgesetz) of 28 October 2004 as compared with the text of the Corporate Governance Code. Accordingly we have modified our application of the Corporate Governance Code in compliance with the amended text of the Act.

As before we shall publish our consolidated financial accounts and our interim reports within the deadlines prescribed by law. In the interests of greater timing flexibility concerning the production of our reports, we shall not adopt the Government Commission recommendations on the tightening of deadlines contained in clause 7.1.2 of the Corporate Governance Code.

The list of third party companies in which our bank holds a material interest is published in our annual report. We have adopted the recommendation on publication contained in clause 7.1.4 of the Corporate Governance Code, subject to the proviso that we only report those investments whose amount exceeds a legal disclosure threshold.

Reportable dealings in HSBC Trinkaus & Burkhardt shares or in rights to those shares under Section 15 of the Securities Trading Law

No dealings in HSBC Trinkaus & Burkhardt shares, or in rights to those shares which require reporting in accordance with Section 15 of the Securities Trading Law or Clause 6.6 of the Corporate Governance Code, were carried out in 2004 by persons obliged to report such dealings.

Day-to-day monitoring

We have entrusted the independent Compliance function of our Bank with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2004 financial year no infringements of these rules were identified, in terms of the form, content or spirit of the Corporate Governance Code, and our external auditors have confirmed this finding.

Düsseldorf, February 2005

For the Managing Partners

Andreas Schmitz
Chairman

For the Supervisory Board

Dr. Sieghardt Rometsch
Chairman

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Interpretation and evaluation of statements about the future

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. This information is based on the consolidated figures at the close of the 2004 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our Consolidated Statements. To assist you in evaluating our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included.

In addition, this Annual Report contains statements of our expectations concerning our Group's progress during 2005. Such statements about the future can be found in particular in the Letter from the Managing Partners to our shareholders, in the 'Outlook for 2005' section, in the section on our company's strategy and also in many other places throughout our Annual Report. These statements about the future are based on our expectations of future economic and political developments and on our assumptions about the effects these will have on business progress and on our related business plans.

All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the financial year 2005 becoming obsolete or outdated. We accept no obligation to adjust our forecasts, assumptions and expectations in the light of new information or in line with subsequent events to reflect the new level of knowledge, nor to update our Annual Report through subsequent publication of such changes.

Key Dates

7 April 2005

Results press conference

12 May 2005

Interim report as at 31 March 2005

7 June 2005

Annual General Meeting

27 July 2005

Press conference

Interim report as at 30 June 2005

10 November 2005

Press conference

Interim report as at 30 September 2005

Five-Year Comparison of Consolidated Figures in € m

Figures according to IFRS	2004	2003	2002	2001	2000
Balance sheet total	13,323.1	10,987.7	11,130.7	11,001.0	10,345.3
Assets					
Cash reserves	157.9	63.8	15.1	268.1	63.6
Loans and advances to banks	2,531.0	1,479.6	1,979.0	2,185.8	1,089.4
Loans and advances to customers	2,636.7	2,364.7	2,465.7	2,926.1	3,132.7
Risk provisions	- 52.3	- 60.0	- 63.4	- 66.4	- 69.9
Financial assets held-for-trading	6,215.6	4,992.2	4,352.7	3,183.4	3,777.2
Financial assets	1,678.2	1,975.2	2,211.3	2,363.8	2,208.3
Property and equipment	74.9	78.4	111.0	105.6	98.6
Intangible assets	35.4	31.5	1.2	0.0	0.0
Other assets	45.7	62.3	58.1	34.6	45.4
Liabilities					
Deposits by banks	913.6	989.2	729.4	1,801.8	1,914.1
Customer accounts	5,927.1	5,569.5	5,892.7	5,580.0	4,642.0
Debt securities in issue	16.9	181.1	268.1	535.6	975.2
Financial liabilities held-for-trading	4,956.4	2,883.3	2,894.4	1,703.5	1,499.6
Provisions	351.7	311.6	316.1	309.4	273.2
Other liabilities	81.4	59.0	69.1	79.4	99.5
Subordinated capital	273.2	240.2	242.9	216.1	282.2
Minority interests held by third parties	0.1	0.1	0.1	1.9	6.1
Equity capital (incl. consolidated profit)	802.7	753.7	717.9	773.3	653.4
Profit and loss					
Net interest income	69.3	75.0	70.4	79.7	72.7
Risk provisions	1.6	7.7	4.1	4.3	4.2
Net fees and commissions	226.4	196.4	195.5	197.3	230.5
Trading profit	54.4	44.8	15.3	54.6	66.7
Total administrative expenses	250.0	226.9	224.5	237.4	238.6
Net other operating expenses and income	3.8	4.5	4.4	3.0	0.2
Operating profit	102.3	86.1	57.0	92.9	127.3
Other income/expenses (net)	19.2	-1.9	-6.9	55.4	14.9
Net income before tax	121.5	84.2	50.1	148.3	142.2
Income tax	43.5	37.3	23.8	35.2	50.6
Net income	78.0	46.9	26.3	113.1	91.6

HSBC Trinkaus & Burkhardt
Bank since 1785

Annual Report 2004