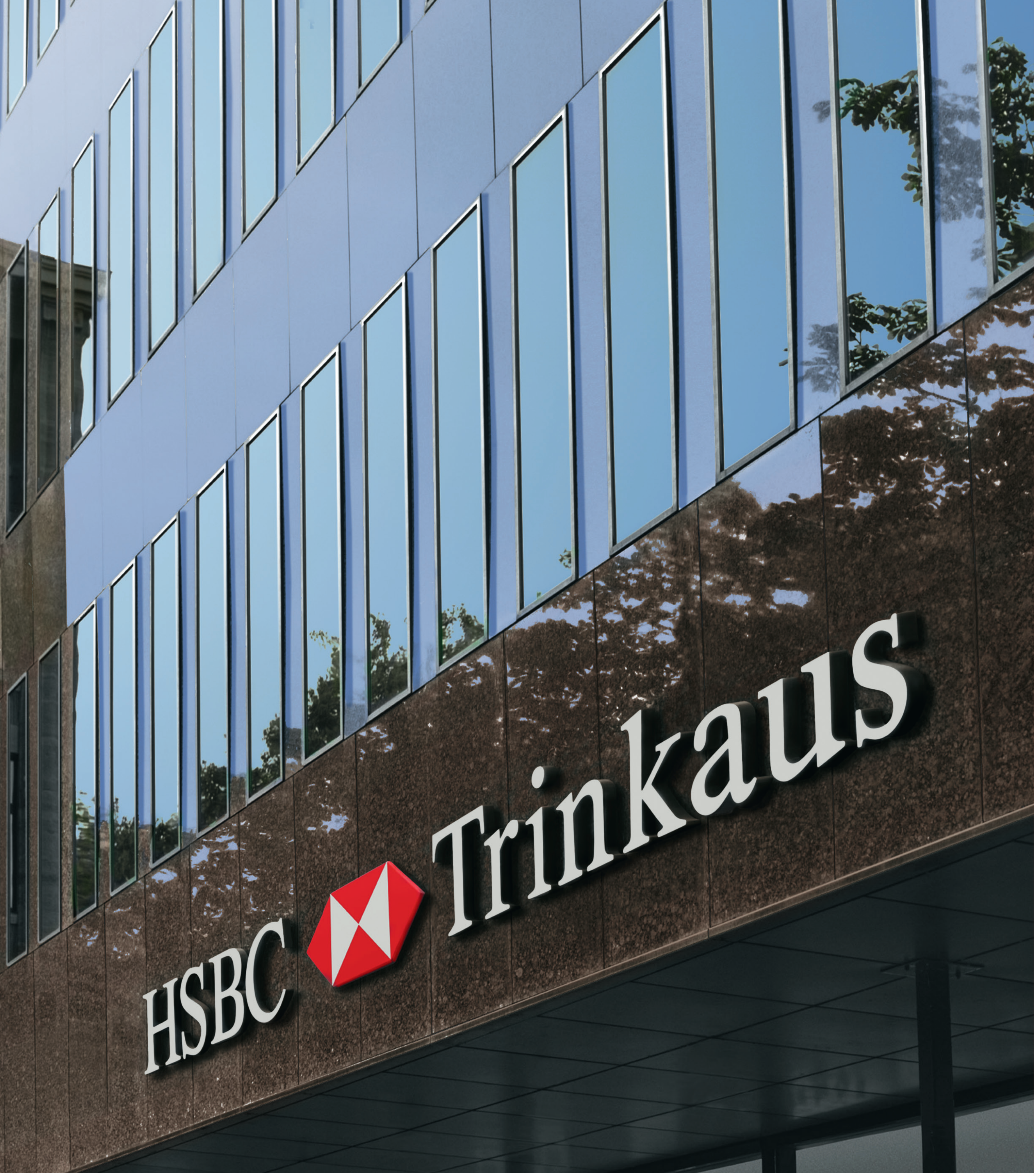


Annual Report 2013

HSBC Trinkaus

Financial Highlights of the HSBC Trinkaus Group

	2013	2012*	change in %
Results in € m			
Operating revenues	703.0	705.4	– 0.3
Net loan impairment and other credit risk provisions	10.9	0.9	> 100
Administrative expenses	486.2	495.0	– 1.8
Pre-tax profit	219.1	217.9	0.6
Tax expenses	63.8	85.9	– 25.7
Net profit	155.3	132.0	17.7
Balance sheet figures in € m			
Total assets	19,809.7	20,047.8	– 1.2
Shareholders' equity	1,453.7	1,385.2	4.9
Ratios			
Cost efficiency ratio of usual business activity in %	67.9	69.4	–
Return on equity before tax in %	16.5	17.1	–
Net fee income in % of operating revenues	57.0	54.4	–
Funds under management and administration in € bn	149.2	150.3	– 0.7
Employees	2,527	2,528	0.0
Share information			
Number of shares issued in million	28.1	28.1	0.0
Dividend per share in €	2.50	2.50	0.0
Earnings per share in €	5.53	4.70	17.7
Share price as at 31.12. in €	84.80	87.19	– 2.8
Market capitalisation in € m	2,383.5	2,450.7	– 2.8
Regulatory ratios**			
Tier 1 in € m	1,303.9	1,192.6	9.3
Regulatory capital in € m	1,638.5	1,534.6	6.8
Risk-weighted assets in € m	11,125.0	9,238.1	20.4
Tier 1 ratio in %	11.7	12.9	–
Regulatory capital ratio in %	14.7	16.6	–

* Prior year's figures adjusted. The adjustments are explained in Note 18.
** Following confirmation of the balance sheet

Annual Report 2013

HSBC Trinkaus & Burkhardt

Date of issue: April 2014

HSBC Trinkaus & Burkhardt AG Königsallee 21/23 40212 Düsseldorf Tel. +49 211 910-0 Fax +49 211 910-616
info@hsbctrinkaus.de www.hsbctrinkaus.de

Contents

Ladies and Gentlemen,

The 2013 financial year was an eventful one for the Bank due to the general economic and regulatory setting as well as new strategic decisions. There were signs of recovery and growth in the global economy again last year – albeit only at a slow pace. Tighter regulatory requirements for banks are putting many institutions, their business models and balance sheets under additional pressure.

Thanks to our good capitalisation and outstanding liquidity we, on the other hand, are in the position to expand our business model. We want to make better use of our strengths and benefit from the changes that are becoming evident in the banking sector. In July 2013 we therefore launched a growth initiative aimed at positioning HSBC Trinkaus far more strongly than to date as the 'Leading International Bank' in Germany and making us one of the leading banks in the business with the upper SME segment and large corporations by 2017. In order to achieve this, we will primarily enlarge our client base of internationally-operating SMEs, extend our product offer, expand the lending business with an adjusted appetite for risk and use the international network within the HSBC Group more intensively. We are convinced that we will be able to acquire new clients thanks to our global presence and our capital strength as HSBC.

Our strategic orientation is based on the good results in the latest financial year. Despite the difficult environment and additional expenses for restructuring, pre-tax profit of € 219.1 million was slightly higher than the adjusted prior-year figure (€ 217.9 million). Net profit even increased by 17.7 % compared to the adjusted prior-year figure, to € 155.3 million.

There was a slight decline in the regulatory capital ratio in the latest financial year, from 16.6 % to 14.7 %. The Tier 1 capital ratio stands at 11.7%. Increased risk weighted assets as a result of the growth strategy launched in the corporate banking business and the associated expansion of our lending business were responsible for the slightly lower ratios. HSBC Trinkaus is therefore in a very strong capital position for further growth and is well equipped for the tighter requirements under Basel III applicable from the 2014 financial year – in the future as well. In light of the good result, the Management Board and the Supervisory Board will propose to the Annual General Meeting the payment of an unchanged dividend of € 2.50 per share.

The successful trend in business again confirms the sustainability of our business model. We also have an important stand-alone feature in the German market. Thanks to our access to HSBC's global network we offer international presence in the world's most important growth markets, but we are firmly rooted as a German bank with a history going back almost 230 years in Germany. The combination is important for our positioning – above all in the corporate banking business upon which our growth initiative is focused. It qualifies us as the partner of choice for German companies with international business or corresponding goals. We will use our asset, our international networking or 'Global Connectivity', more strongly from now on and also offer it in a corporate segment which is relatively new for us: internationally-operating companies with an annual turnover of € 35 million and more will also be included in our target client group in future. We are convinced that the success of internationally-operating companies in Germany will depend on whether they turn more strongly towards the fast-growing markets and that we can provide them with the best possible support in their endeavours.

The balanced nature and stability of our business structure can also be seen in the results of our four core segments Commercial Banking, Global Banking & Markets, Asset Management und Global Private Banking, which were able to improve their results further overall. The Global Banking & Markets segment again generated the greatest earnings contribution, even though the result is lower owing to an extraordinary effect the previous year. The business segments were able to make up for and largely overcome the difficult interest rate environment and the further increase in pressure on margins with higher fee income as well as cost reductions. Administrative expenses were reduced further as a result of restructuring measures to increase efficiency, even though additional expenses were incurred on account of the withdrawal from Luxembourg. In addition, we see further potential in stronger cross-divisional cooperation: in terms of the product offer, the mutual introduction of clients and the integral servicing of clients, both private and commercial.

2014 will be a challenging year for HSBC Trinkaus. Our business performance makes us confident that we will be able to use the opportunities presented by the market and competitive environment. The numerous regulatory changes represent a challenge for our Bank as well, which we will have to meet with further increases in efficiency. However, some of the changes can also result in opportunities for us – on account of their influence on the structure of the banking sector. Our goal is to become the core bank for a greater number of clients.

Our employees play a decisive role in HSBC Trinkaus' success: their skills and commitment, but also their willingness to change and enthusiasm are indispensable above all in times of growth and make it possible for us to constantly develop further at all. We owe our employees recognition and thanks for the fact that they meet new challenges every day. In the awareness that our employees are our most important asset, we continue to attach major importance to the development of our staff – be it through training and advanced training measures or international placements. It is important during processes of change in particular that our employees can identify with HSBC Trinkaus and support the reorientation of our business activities.

Finally, we would like to thank our clients and shareholders for the trust they place in us, our business partners for their support and our employees for their constructive cooperation.

Yours sincerely,

The Management Board

Executive and Supervisory Bodies

Executive and Supervisory Bodies of HSBC Trinkaus & Burkhardt AG

Management Board

Andreas Schmitz, Chairman
Carola Gräfin v. Schmettow

Paul Hagen
Norbert Reis

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

HSBC Trinkaus is an internationally-networked, client-oriented commercial bank. We are in a special position among the German banks: in a global network as HSBC in Germany and therefore part of one of the world's largest banking groups – and at the same time offering an individual and highly-personalised customer service with the values of our history going back almost 230 years. With our clear focus on our target groups – corporate clients, institutional clients and high-net-worth individuals – we have a proven business model that is also viable for the future. As the German unit of the HSBC Group, HSBC Trinkaus is still the highest rated private commercial bank in Germany with a 'AA- (Stable)' Fitch rating.

Internationality

We accompany our clients throughout the world, above all in up-and-coming growth markets. HSBC has decades of experience here as the largest foreign bank in Asia, Latin America and the Middle East. As a result of our international connectivity and comprehensive knowledge of the local market situation, our clients gain access to complex financial services, exclusive information and first-class

Executive Committee


Dr. Christiane Lindenschmidt
Dr. Rudolf Apenbrink


Stephen Price
Dr. Jan Wilmanns

contacts. The HSBC Group operates in over 80 countries and regions with around 260,000 employees and more than 6,600 branches and has more than 55 million clients. As one of only few banks worldwide, we have large branch networks in the Emerging Markets – in mainland China, for example, over 160 branches in more than 50 cities – to which our advisors in Germany have contact within the scope of our global overall portfolio management.

Growth

Our strong balance sheet and earning power put us in the position to grow further with our clients and open up the door to new clients. We want to position ourselves as 'Leading International Bank' in Germany by enlarging our client base above all in the corporate banking business (internationally-oriented SMEs with annual turnover of € 35 million or more as well as large corporate clients and multinationals), extending our product offer, adequately increasing our appetite for risk and further intensifying the global cooperation with the HSBC Group. With HSBC's capital base and service capacity and our major expertise in cross-selling transactions, it will be possible for us to enter into larger exposures in future. We therefore want to act as core bank for even more clients.

Global standards

We have undertaken to maintain the highest global standards worldwide with respect to regulatory and statutory provisions in the HSBC Group. Our business model and our risk strategy, just like the interaction with our clients and employees, are characterised by sustainability and guiding values. Your can rely on HSBC Trinkaus. The trust that is placed in us is expressed in our award-winning client satisfaction and the low fluctuation in our workforce. We are aware of our responsibility to society and act accordingly. Our reputation is based upon our claim that banking is above all 'people's business'. That is what we stand for.

Supervisory Board

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

Voting members:
Dr. Sieghardt Rometsch, Düsseldorf
Chairman
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Friedrich-Karl Goßmann*, Essen
Deputy Chairman
Bank employee

Samir Assaf
Group Managing Director,
Chief Executive Officer, Global Banking and Markets
HSBC Holdings plc, London

Sigrid Betzen*, Meerbusch
Managing Director,
German Association of Bank Employees

Peter Boyles (until 31 August 2013)
Chief Executive Officer,
Global Private Banking,
HSBC Private Banking Holdings (Suisse) SA, Geneva

Deniz Erkman*, Krefeld
Bank employee

Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

Dr. Hans Michael Gaul, Düsseldorf

Birgit Hasenbeck*, Düsseldorf
Bank employee

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

Harold Hörauf, Eggstätt (until 31 August 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Alan Keir (from 1 September 2013)
Group Managing Director,
Chief Executive Officer,
HSBC Holdings plc, London

Simon Leathes (from 1 September 2013)
Non-Executive Director,
HSBC Bank plc, London

Friedrich Merz, Arnsberg
Partner,
Mayer Brown LLP

Oliver Popp*, Frankfurt
Press Officer,
German Association of Bank Employees

Ralf Rochus*, Essen
Bank employee

Carsten Thiem*, Düsseldorf
Bank employee

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

* elected by the employees

As at: 31 December 2013

Supervisory Board Committees

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

Samir Assaf (from 26 September 2013)
Group Managing Director,
Chief Executive Officer,
Global Banking and Markets,
HSBC Holdings plc, London

Peter Boyles (until 31 August 2013)
Chief Executive Officer,
Global Private Banking,
HSBC Private Banking Holdings (Suisse) SA, Geneva

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

Harold Hörauf, Eggstätt (until 31 August 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Alan Keir (from 26 September 2013)
Group Managing Director,
Chief Executive Officer,
HSBC Bank plc, London

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

Deniz Erkman*, Krefeld
Bank employee

Dr. Hans Michael Gaul, Düsseldorf

Harold Hörauf, Eggstätt (until 31 August 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Simon Leathes (from 26 September 2013)
Non-Executive Director,
HSBC Bank plc, London

Deputy members:

Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

Friedrich Merz, Arnsberg
Partner,
Mayer Brown LLP

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

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

Deniz Erkman*, Krefeld
Bank employee

Dr. Hans Michael Gaul, Düsseldorf

Harold Hörauf, Eggstätt (until 31 August 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Simon Leathes (from 26 September 2013)
Non-Executive Director,
HSBC Bank plc, London

Deputy members:

Stefan Fuchs*, Düsseldorf
Employee,
HSBC Transaction Services GmbH

Friedrich Merz, Arnsberg
Partner,
Mayer Brown LLP

* elected by the employees

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

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

Samir Assaf (from 26 September 2013)
Group Managing Director,
Chief Executive Officer,
Global Banking and Markets,
HSBC Holdings plc, London

Alan Keir (from 26 September 2013)
Group Managing Director,
Chief Executive Officer,
HSBC Bank plc, London

Peter Boyles (until 31 August 2013)
Chief Executive Officer,
Global Private Banking,
HSBC Private Banking Holdings (Suisse) SA, Geneva

Harold Hörauf, Eggstätt (until 31 August 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

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

Peter Boyles (until 31 August 2013)
Chief Executive Officer,
Global Private Banking,
HSBC Private Banking Holdings (Suisse) SA, Geneva

Friedrich-Karl Goßmann*, Essen
Bank employee

Birgit Hasenbeck*, Düsseldorf
Bank employee

Alan Keir (from 26 September 2013)
Group Managing Director,
Chief Executive Officer,
HSBC Bank plc, London

* elected by the employees

Advisory Board

Friedrich Merz
Chairman
Partner,
Mayer Brown LLP

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

Dr. Olaf Berlien
Chief Executive Officer,
M+W Group

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

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

Baron Wolf von Buchholtz (until 31 December 2013)

Albert H. K. Büll (until 31 December 2013)
Entrepreneur and Partner,
B&L Group

Heinrich Deichmann
Chairman & Chief Executive Officer,
Deichmann SE

Walter P. J. Droege
Droege International Group AG

Dr. Thomas Enders
Chief Executive Officer,
AIRBUS Group

Heinrich Johann Essing
Managing Director,
HEC Vermögensverwaltung GmbH

Dr. Joachim Faber
Chairman of the Supervisory Board,
Deutsche Börse AG

Henning von der Forst
Member of the Management Board,
Nürnberger Versicherungsgruppe

Robert Friedmann
Chairman of the Board of Directors,
Würth-Gruppe

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

Dr. Marc Heußinger (from April 2013)
Chairman of the Board of Administration
ALDI-North Group

Harold Hörauf (from September 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Professor Dr. Michael Hoffmann-Becking, Lawyer
Rechtsanwälte Hengeler Mueller

Dr. Olaf Huth (from July 2013)
former Managing Partner,
HSBC Trinkaus & Burkhardt KGaA

Hartmut Jenner
Chairman of the Management Board,
Alfred Kärcher GmbH & Co. KG

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

Dr. Karl-Ludwig Kley
Chairman of the Executive Board,
Merck KGaA

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

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

Professor Dr. Dirk Lepelmeier (until 31 December 2013)

Thomas Löhning
Managing Director,
Versorgungswerk der Architektenkammer NRW

Professor Dr. Jörg-Andreas Lohr
Managing Shareholding Partner,
Lohr + Company GmbH Wirtschaftsprüfungsgesellschaft

Udo van Meeteren

Dr. Claus Meier, Dipl.-Volkswirt (until 31 December 2013)
Senior Church Councillor,
Evangelical Lutheran Church of Bavaria

Jürgen Meisch
Member of the Management Board,
Gothaer Finanzholding AG

Ludwig Merckle
Managing Director,
Merckle Group

Dr. Markus Michalke
Managing Director,
MIC Capital / Alveus Beteiligungen

Hildegard Müller
Member of the Board of Directors,
Chairwoman of the Management Board,
BDEW German Association
of Energy and Water Industries

Karsten Müller-Uthoff
Managing Director,
Ärzteversorgung Niedersachsen

Werner Nicoll
Member of the Management Board,
ARAG SE

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

Hartmut Retzlaff
Chairman of the Executive Board,
STADA Arzneimittel AG

Petra Schadeberg-Herrmann
Shareholding Partner of Krombacher Brauerei
Bernhard Schadeberg GmbH & Co. KG

Dr. Marcus Schenck (until 30 September 2013)
Head of Investment Banking Services, EMEA,
Goldman Sachs International

Dr. Ulrich Schröder
Chief Executive Officer,
KfW Bankengruppe

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

Professor Dr. Klaus Schweinsberg
Centre for Strategy and Higher Leadership

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

Helmut Späth
Deputy Chairman of the Management Board,
Versicherungskammer Bayern

Norbert Steiner
Chairman of the Board of Executive Directors,
K+S Aktiengesellschaft

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

Werner Wenning
Chairman of the Supervisory Board,
Bayer AG

As at: 31 December 2013

Group Management Report

The Foundations of the Group

The Group business model

Structure and management

The HSBC Trinkaus Group currently comprises a group of 15 active companies. The parent company is HSBC Trinkaus & Burkhardt AG.

HSBC Trinkaus & Burkhardt AG

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

A number of other companies belong to the Group, but they are not engaged in any significant business activity at present. Finally, companies acting as the managing partners of closed-end property funds and of private equity funds also form part of the Group. HSBC Trinkaus has decided to withdraw from the Luxembourg market. The business activities at this location will therefore be discontinued.

The Group is managed as a single entity by the Management Board of HSBC Trinkaus & Burkhardt AG. Supervision of executives managing Group subsidiaries is carried out as a rule by the relevant Supervisory Board, Board of Directors, and Advisory Board. Notwithstanding their independent legal status, all companies are managed within the framework of an overall strategy.

The business divisions

Notwithstanding their joint overall responsibility, all Management Board members are also assigned individual responsibility for specific business areas. The Management Board members are assisted by Dr. Rudolf Apenbrink, Stephen Price and Dr. Jan Wilmanns as members of the Executive Committee. Mr. Florian Fautz was posted to our majority shareholder, HSBC Bank plc, and left the Executive Committee with effect from 31 December 2013. The assignment of responsibilities in the following organisational chart applies not only to the parent company and its branches, but also to the subsidiaries.

There were several changes in the responsibilities for the divisions in the 2013 financial year. Dr. Olaf Huth left the Management Board of the Bank with effect from our Annual General Meeting on 4 June 2013. Dr. Huth was responsible for the Private Banking business and will remain committed to HSBC Trinkaus as Member of the Advisory Board. Mr. Andreas Schmitz has taken over responsibility for the Global Private Banking division.

Furthermore, Mr. Manfred Krause decided to resign as Management Board member responsible for the Commercial Banking division with effect from 2 July 2013. Mr. Andreas Schmitz has been responsible for the division since then and Mr. Stephen Price has been Member of the Executive Committee responsible for the CMB business since 27 August 2013.

Mr. Norbert Reis was appointed as a further member of the Management Board with effect from 1 January 2014 and at the same time took over responsibility for the Global Banking division from Mr. Schmitz. Furthermore, Dr. Jan Wilmanns was appointed Executive Committee member responsible for Global Markets / Institutional & Corporate Clients in Frau v. Schmettow's division on 1 January 2014.

The organisational chart shows the allocation of responsibilities for the divisions from 1 January 2014.

Management Board

Andreas Schmitz
Chairman of the Management Board

- Global Private Banking
  Andreas Schmitz
- Commercial Banking
  Stephen Price
  Executive Committee
- Functions A
  Andreas Schmitz
  – Legal
  – Compliance Functions
  – Internal Audit
  – Human Resources (HR)
  – Communications
  – CEO Office

Carola Gräfin v. Schmettow
Management Board

- Global Markets
  Carola Gräfin v. Schmettow
- Global Markets / Institutional & Corporate Clients
  Dr. Jan Wilmanns
  Executive Committee
- Capital Financing
  Carola Gräfin v. Schmettow
- Global Research
  Carola Gräfin v. Schmettow
- Asset Management AMDE
  Dr. Rudolf Apenbrink
  Executive Committee
- INKA
  Carola Gräfin v. Schmettow
- Luxembourg HTBI / HTLI
  Carola Gräfin v. Schmettow

Norbert Reis
Management Board

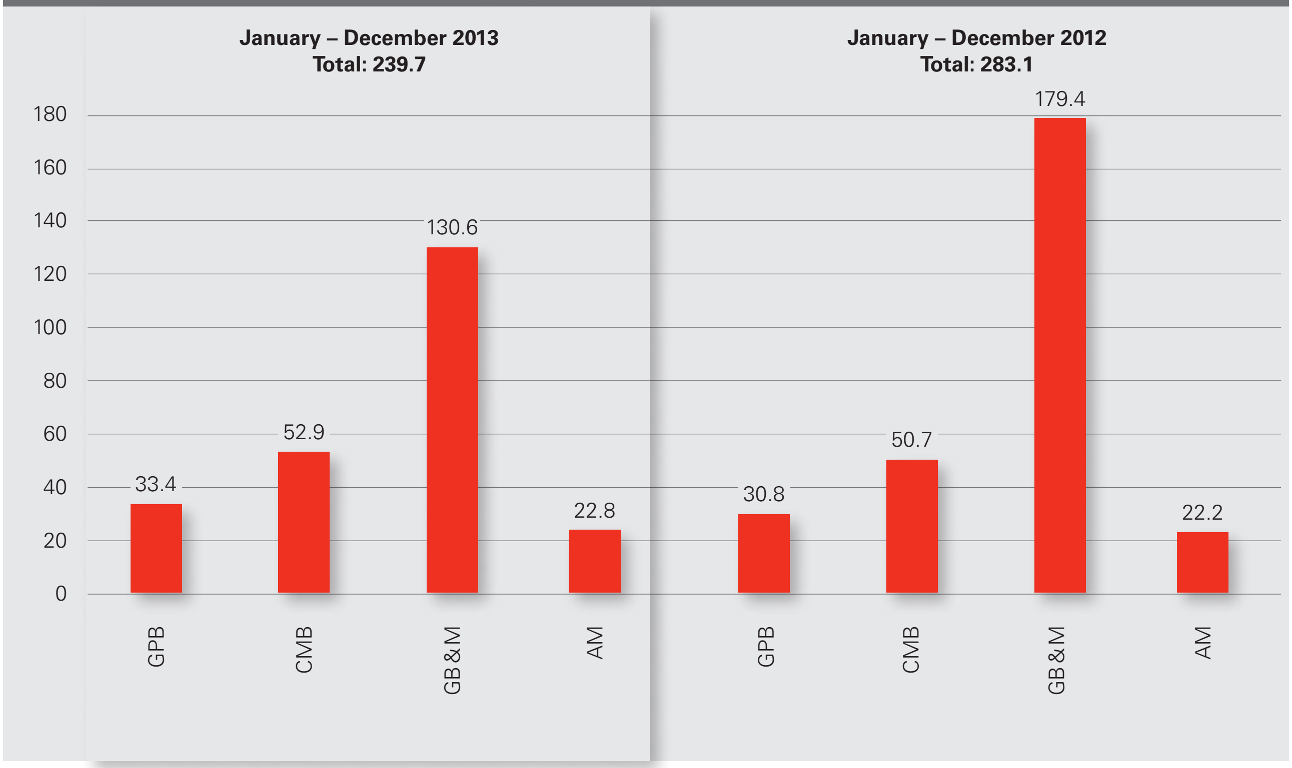
- Global Banking
  Norbert Reis

Paul Hagen
Management Board

- Functions B
  Paul Hagen
  – Risk
  – Finance
- HSBC Securities Services
  Dr. Christiane Lindenschmidt
  Executive Committee
- HSBC Technology & Services
  Dr. Christiane Lindenschmidt
  Executive Committee
- Global Banking & Markets Operations
  Dr. Christiane Lindenschmidt
  Executive Committee
- HSBC Transaction Services
  Dr. Christiane Lindenschmidt
  Executive Committee

The business divisions have corresponded to the global organisational structure of the HSBC Group since this financial year. The costs for the technology and service departments are mainly apportioned as unit costs to the customer and trading divisions. The cost centres are applied to the operating divisions so that their business results are based on full costs.

Contributions to profit in €m



Overview of our strategy

HSBC Trinkaus again showed in the latest financial year that the diversified business model based on continuity and clear client orientation continues to pay off. The Bank's success is guaranteed by the unique combination in the German banking landscape of the highly-personalised and professional service orientation of a private bank with the international service capacity and capital strength of the HSBC Group. As part of the HSBC Group HSBC Trinkaus is still the highest-rated private commercial bank in Germany with a 'AA- (Stable)' Fitch Rating; we regard this as well as confirmation of our successful business strategy.

We want to use this position of strength to meet the changing general setting in the banking market. Firstly, we will have to deal with only moderate economic growth in Germany. Growth of 1.0 to 1.7 % p.a. is assumed for the years from 2014 to 2017 provided no exogenous shocks have an impact, such as a slump in the emerging markets or the worsening of the crisis in the Eurozone. This lack of impetus from the macroeconomic environment also has consequences for the banking landscape, which is of significance above all for HSBC Trinkaus' traditionally strong business with financial institutions and the Global Markets business.

The growing regulatory control of the sector will lead to many new provisions with a considerable impact on business models in the banking sector, including the planned financial transaction tax, proposals for the separation of commercial and investment banking as well as EMIR, the regulatory standard for derivatives. A business model strongly geared towards the securities and derivatives business, like that of HSBC Trinkaus, will have to be adjusted here. The structural changes to the competitive environment do not remain without consequences for HSBC Trinkaus' operating business either: the loss of confidence in the banking sector among private clients has left its mark on global private banking, the growing technological and regulatory requirements are putting the cost base under pressure and international providers' reawakened interest in the German market is stepping up the competition.

Based on the various changes in the banking environment, the Management Board of HSBC Trinkaus has already been taking strategic measures to optimise our operating activities for some time. This includes the reduction of non-core business, including the discontinuation of the real estate fund business, the withdrawal from Luxembourg and the removal of non-target clients from our client portfolios. We want to concentrate on our core lines of business and selectively expand them. The growth initiative launched in July 2013 is of particular importance here. It centres on a) expanding our client base in the corporate banking business (internationally-oriented SMEs and large corporate clients/multinationals), b) a more comprehensive product offer, c) stronger international cooperation with the HSBC Group and d) an adjusted appetite for risk. In doing so, we are adding a clearly balance sheet-oriented commercial bank component to our profile to date as a securities-oriented bank on a targeted basis. The aim of the growth initiative is to achieve a stable long-term trend in business and compensate for possible slowdowns in other lines of business by investing and diversifying in further lines of business which are closely connected with our core areas of competence.

Part of the initiative is to extend the current target clientele to include internationally operating corporate clients with an annual turnover of € 35 million and more and private equity houses. Our clients' requirements are to be fulfilled by a broader product offer: Payments and Cash Management, Trade and Receivable Finance, syndicated loans, public development loans and long-term loans to finance investments will be available for the first time or their availability increased. Starting with such anchor products, we also want to play a greater role with respect to bond issues, IPOs, capital increases, the issue of promissory note loans or refunding, and we are building on the major expertise already available in this area. The goal is to become core bank for more clients. HSBC Trinkaus will also be closer to its clients in future with four new branches in Dortmund, Hanover, Mannheim and Nuremberg and the extension of the branch in Cologne to include the corporate banking business. Our growth initiative differs clearly from the many SME-oriented offensives launched by other banks in its targeted focus on internationally operating clients. For these clients the global network of the HSBC Group entails a unique offer in Germany in this form: competence in global financial products and local presence – above all in the world's significant growth markets.

As part of the growth initiative we will further strengthen the cooperation between the business divisions. Our Global Markets division will support the growth in the corporate banking business in particular through its expertise in the foreign exchange and derivatives business. Moreover, we see business potential in closer cooperation between Global Private Banking and the corporate banking business. Beyond the growth initiative we anticipate that our Global Private Banking and Asset Management activities will continue to contribute to the stable trend in earnings with a high return on equity. We will also continue to play an active role as consolidator in the securities service market.

Optimisation of the IT infrastructure is an essential requirement for our future operations. We will continue to thoroughly revise our set-up here and make necessary adjustments. In addition, we regularly optimise our cost base. Furthermore, additional steps towards industrialisation and increasing efficiency will be taken by standardising processes and off-shoring to the HSBC service centre in Krakow.

The long-standing and successful business relationships with our clients as well as their positive feedback have strengthened our conviction that we are on the right track and given us the confidence to continue along the growth path we have embarked upon. Our success remains based on:

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

In the spirit of our long tradition, we remain committed to our values; future needs tradition.

The control system

1. Explanation of the control system

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

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

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

2. Specification of the ratios

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

- Cost efficiency ratio
- Return on equity
- Advances to core funding ratio
- Tier 1 ratio
- Regulatory capital ratio

3. Explanation of the calculation of the ratios

Cost efficiency ratio

To calculate the cost efficiency ratio, administrative expenses are put in relation to the Bank's income (net interest income, net fee income, share of profit in associates, net trading income, income from financial assets and net other income).

Return on equity

The return on equity is calculated by putting pre-tax profit in relation to average shareholders' equity over the last five quarters (including the average consolidated profit available for distribution and excluding the average valuation reserves).

Advances to core funding ratio

The advances to core funding ratio puts the volume of customer loans granted in relation to the volume of long-term capital market financing raised and to the customer deposits qualified as core funding.

Tier 1 ratio

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

Regulatory capital ratio

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

Economic Report

General economic and sector-related framework

Macroeconomic developments

There were growing signs of stabilisation around the world in 2013. Despite showing mild symptoms of fatigue, the emerging markets continued to dictate the pace of the recovery. But many industrial nations also provided positive impetus: the Japanese economy picked up momentum thanks to major injections of central bank liquidity and the US economy was also able regain its footing. The budget disputes in the second half of the year left no notable traces. There was cause for relief in particular in the Eurozone last year, though, with the longest recession in the history of the single currency area coming to an end in the second quarter. Germany continued to act as the mainstay of the recovery, but the growth differential between the peripheral and the core states was reduced. Overwhelming optimism is nevertheless out of place. Although growth was positive again last year, the upward momentum was disappointing overall. The German economy was no exception here either, having only grown by a modest 0.5 % (working day adjusted) in 2013 after 0.9 % growth in gross domestic product the previous year.

The German economy got off to a shaky start in 2013 above all with respect to investment spending. The course has been set for a sustainable recovery in the meantime, though. Thanks to dwindling fears over the break-up of the single currency area, the cyclical stabilisation in the peripheral states, better capacity utilisation and far more favourable financing terms, the way has been paved for an upturn in investment in 2014. The German labour market is also likely to benefit further from this. At more than 42 million, the number of employed persons has already risen to a new record high. This is not yet the end of the story, though, with a view to the optimistic sentiment among German companies and despite the possible negative implications in the medium term of the introduction of the statutory minimum wage. The good employment prospects, rising wages, moderate inflation and only little incentive to save owing to the ECB's zero-interest-rate policy are creating a consumer-friendly environment. The solid domestic economy should therefore turn out to be the supporting pillar for German economic activity and enable growth of 1.7 % in 2014. If companies spend more on plant and equipment again and if consumers dig deeper in their pockets once more, then import demand will also rise.

Compared to the German upturn, the recovery in the rest of the single currency area is lagging behind. The economy even contracted again slightly in 2013 by 0.4 %, although the downward momentum slowed. The economy in the Eurozone should return to its expansion path in 2014, but will be too weak to drive inflation. Major underutilisation on the labour market and the resulting low pressure on wages will remain responsible for this. After moderate price inflation of only 1.4 % last year, inflation threatens to slow even further in 2014 in this environment. This prompted the European Central Bank to lower the key interest rate in November for the second time in one year by 25 basis points to 0.25 %. With a view to the continuing disinflationary tendencies, the doors for further easing measures remain wide open. The monetary watchdog is also likely to communicate clearly that its foot will remain firmly on the fiscal accelerator until further notice. The upside potential for ten-year yields in the single currency area is therefore likely to be limited overall in 2014. However, none of the fiscal policy measures discussed to date has the potential to boost lending in the Eurozone. The assumption of banking supervision by the European Central Bank offers more hope in this respect: if the ECB manages to increase confidence in the stability of the banking system, the situation on the interbank market should ease and lending start up again.

The central banks in other currency areas are also likely to rely on forward-looking communication and ensure a loose monetary policy in the long term. The USA is also still a long way away from increasing key interest rates this year despite increasingly rosy growth prospects of around 2.0 to 2.5 %. With a view to the reduction of bond purchasing, only the degree of the expansionary measures by the Fed will be reduced. US yields are likely to persist below 3 % in 2014 as well and sentiment on the stock markets should remain favourable thanks to high global liquidity. The fundamental reorientation of US monetary policy is not to be expected in 2014 either. Janet Yellen, who is taking over the office of Fed president from Ben Bernanke, has in doubt always spoken out in favour of a more expansionary course on the part of the Fed in the past.

Developments in the banking sector

The financial and sovereign debt crisis had a considerable impact on global economic activity and events on the international financial markets in the latest financial year as well. In Germany, the gradual recovery of gross domestic product and the still low unemployment rate led to the stabilisation of the general economic situation. The recovery was driven almost exclusively by domestic factors, with private and public consumption supporting economic growth above all. After economic growth of 0.5 % in 2013, growth of 1.7 % is expected for 2014 subject to the European sovereign debt crisis subsiding further and the global economy gaining momentum again.

In this slightly more positive environment, the low level of interest rates, weak credit demand, the growing competition and the increase in regulatory controls remain important challenges for the German banks.

- The European Central Bank lowered the key interest rate in the 17 Eurozone states to a record low of 0.5 % in July followed by a further reduction to 0.25 % in November, which had direct consequences for the profitability of German banks. As the low level of interest rates is likely to continue, the earnings potential of the financial industry will be limited in 2014 as well.

- At € 862 billion, the volume of loans to companies and self-employed professionals was around 2 % lower than in the previous year in the first nine months of 2013. This reflects the weak propensity to invest on the part of the companies on the one hand, but also pronounced internal financing and therefore lower credit demand on the other. Listed companies used their access to the capital market and the volume of bonds outstanding rose by around 16 % in September 2013 to over € 108 billion. Overall the financing conditions for companies remain favourable. This too has consequences for the banks, which is also demonstrated by more relaxed lending standards.

- More and more foreign banks have identified in Germany an important economic location with strong export power and a healthy corporate client landscape and want to expand here. The more intense competition – above all for SME clients – is also putting pressure on profitability as is it hardly possible to pass on costs to the clients.

- Stricter regulation of the financial sector, which requires that each institution examine its business model and adjust rising costs to the lower level of earnings under the regulatory conditions, remains of major significance.

The market environment will remain demanding and challenging for the German banks next year as well. Overall, we are expecting a further decline in revenues owing to the interest rate situation at the same time as stable, but still below-average cost efficiency ratios in an international comparison in view of the cost-saving measures being taken throughout the industry. We are also expecting further balance sheet measures. A combination of reducing risk-weighted assets and increasing capital is also likely to put the German banks among the better-capitalised institutions within the scope of Basel III. Each and every market participant must react to this market environment with a solid strategic orientation, a clearly defined business model, streamlining of the balance sheet, effective restructuring and cost reductions as well as investments in efficient IT processes.

HSBC Trinkaus in the current environment

We are convinced that HSBC Trinkaus is well positioned in the current market environment. We can use our position of strength in this setting to continue along our expansion path. While we are streamlining our portfolio by reducing fringe activities on the one hand, we are concentrating on our core lines of business and expanding them selectively on the other. We have already gone into the growth initiative launched in July 2013 in detail in the chapter ‘Overview of our Strategy’.

The six underlying principles of our business also continue to apply beyond the concrete strategic measures:

- We concentrate on the target groups of SME and global corporate clients, institutional clients and wealthy private clients and would like to expand our activities with existing and new clients in these segments, provided there is a balanced risk/earnings profile.

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

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

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

- We are constantly expanding our service offer in the securities business for clients and for other financial institutions. Our subsidiary Internationale Kapitalanlagegesellschaft mbH (HSBC INKA) has strengthened its market position significantly in fund administration as a master capital investment company (Master-KAG). Furthermore, the Bank has been able to position itself successfully in recent years as an important provider of depositary bank services and global custody services as well as in asset management with HSBC Global Asset Management (Deutschland) GmbH.

- We draw on the resources of one of the largest and strongest banking groups in the world, the HSBC Group. This applies to both the range of powerful products and the networks in around 80 countries worldwide.

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

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

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

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

- We must invest in the qualification of our employees through targeted training and advanced training measures in order to do justice to the growing complexity and internationalisation of our business. We set consistently high standards when selecting new employees who support us in our growth efforts.

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

Our long-standing and successful positioning on the market as well as the first very positive feedback on our growth initiative strengthen our impression that we are on the right track.

Business performance and situation

Profitability

Against the backdrop of the economic situation in the Eurozone stabilising, HSBC Trinkaus generated a pre-tax profit of € 219.1 million in 2013. This represents a slight increase of € 1.2 million versus adjusted pre-tax profit the previous year (2013: € 217.9 million) and corresponds to the prior-year forecast. Net profit of € 155.3 million was 17.7 % or € 23.3 million higher than the prior-year figure of € 132.0 million. The adjustments to the prior-year figures had to be made in accordance with IFRS and are the result of a change in the reporting of pension plans (IAS 19). We go into this in more detail in the Notes in the section 'Change in Accounting Policies'.

Our stable and still successful business model therefore proved itself again. By focusing on our clearly defined target client groups and their requirements, we were able to make further advances in the Global Private Banking, Commercial Banking as well as Asset Management segments. In the Global Banking and Markets segment the result declined significantly as expected on account of one-time effects the previous year.

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

Net interest income declined slightly by € 9.9 million to € 165.8 million, as expected in the prior-year forecast, to which the withdrawal from Luxembourg begun in the second half of the year also contributed.

Interest income from the deposit-taking business remains under considerable pressure. While volumes were increased slightly, margins deteriorated significantly as a result of the central banks' low interest-rate policy. We see the still high level of deposits by our clients as evidence of the confidence they place in the Bank.

Interest income in the lending business improved significantly owing to the increase in business volume while margins declined slightly compared to the previous year. Income from the receivable finance business developed very well in particular. Our readiness to extend the credit portfolio significantly in the wake of our growth strategy means that we can expand the business with larger SME corporate customers as providing loans is still the mainstay of the entire business relationship for this client group.

There was a substantial decline in interest income from financial assets. Maturing bonds could only be replaced by bonds offering a comparable risk profile with far lower coupons in the market environment in 2013. We have maintained our strict rules for the quality of the assets.

After net loan impairment and other credit risk provisions of € 0.9 million the previous year, the figure amounted to € 10.9 million in the 2013 financial year. There was an increase in individually assessed impairments of € 4.6 million and a release of € 0.8 million. A net increase in collectively assessed impairments of € 7.2 million was required owing to the increased lending volume in the wake of our growth strategy as well as the slight change in the portfolio structure. Recoveries on loans and advances previously written off resulted in income of € 0.1 million. Our conservative orientation is unchanged in relation to the assessment of default risks.

Net fee income of € 401.1 million improved versus the prior-year figure of € 383.7 million and therefore exceeded the previous year's forecast slightly, although the start of the withdrawal from Luxembourg left its mark.

In the traditional lending business as the focus of our fee-based business we continued to feel the restraint being exercised by our clients on the capital markets on average for the year. Contrary to the decline in transaction figures in the Bank's securities business, we were again able to record volume and revenue growth in the fund business at our subsidiary Internationale Kapitalanlagegesellschaft mbH (HSBC INKA).

In the fee-based business with foreign exchange and derivatives we generated fee income of € 92.6 million (2012: € 102.6 million) which was significantly lower by € 10.0 million. Nevertheless, we continue to benefit in this business from the close cooperation with companies of the HSBC Group, which largely accept the risks arising from these transactions and thus contribute to extremely competitive pricing.

We were able to significantly improve our results in the lending business again and therefore continue with our profitable growth in the Corporate Banking segment in the fee-based business as well. Net fee income increased by € 8.7 million to € 23.0 million, due not least to fee income from a growing number of lead arrangements of large syndicated loans.

Net fee income from Investment Banking also rose, from € 7.4 million the previous year to € 13.2 million, attributable mainly to supporting clients during fund-raising transactions. On the other hand, net fee income from the issuing and structuring business declined by € 4.3 million.

Alternative investments have established themselves as their own asset category for our sophisticated clients. Above all institutional investors, but also corporate clients and high-net-worth private clients appreciate the diversification effect of these products. Net fee income of € 11.9 million was € 8.5 million higher than in the previous year.

Net fee income from the international business and payments improved slightly.

There was a significant decline in net trading income, in line with the prior-year forecast, of € 66.1 million to € 95.7 million due above all to one-time effects the previous year. On the one hand, the Bank benefited in 2012 from the extraordinary effect of a subsequent increase in compensation in income from trading in equities and equity/index derivatives. On the other, income from Treasury operations was included in income from the fixed income and interest rate derivatives business in the comparable period which could not be repeated in 2013 owing to the change in the interest rate environment. Weak client demand for trading-oriented retail products and certificates continues to put pressure on net trading income.

The previous year's administrative expenses were adjusted on account of the amendments to IAS 19. We go into this in more detail in the Notes in the section 'Change in Accounting Policies'. Consequently, administrative expenses of € 493.2 million reported the previous year were to be increased by € 1.8 million to € 495.0 million. Administrative expenses for the financial year declined versus the adjusted prior-year figure by € 8.8 million to € 486.2 million.

Personnel expenses were down by € 33.5 million to € 286.2 million (adjusted prior-year figure: € 319.7 million), mainly the result of one-time restructuring expenses included the previous year and lower provisions for variable salary components. As provisions had already been created for expected personnel costs in connection with the withdrawal from Luxembourg the previous year, only minor further expenses for this arose in the 2013 financial year.

The trend in other administrative expenses is influenced by the impact of the withdrawal from Luxembourg. After other administrative expenses of € 153.0 million the previous year, € 173.7 million was incurred in the 2013 financial year. Write-downs also increased significantly, from € 22.3 million to € 26.3 million, owing to special write-downs. The respective increase is essentially the result of the start of the discontinuation of activities in Luxembourg. The cost efficiency ratio therefore stood at 67.9 % in the 2013 financial year (adjusted comparable period: 69.4 %) and, in line with the prior-year forecast, remained below the 70 % mark.

Income from financial assets was improved by € 7.2 million to € 16.3 million. Gains on the disposal of securities were set against lower write-downs on investments in the real estate sector as well as minor losses on the disposal of securities.

Other operating income/expenses came to € 36.9 million (2012: € –8.7 million). This figure includes rental income which we generate above all from our real estate project in Australia. Furthermore, income was generated from the net release of provisions for onerous contracts and pending litigation as well as from the sale of the Global Private Banking activities and the sale of the Private Banking-based fund business in Luxembourg to the Liechtenstein-based VP Bank Group. Other net income stood at € 0.1 million after € 0.3 million the previous year.

Tax expenses declined versus the adjusted prior-year figure by € 22.1 million during the financial year to € 63.8 million. This gives a tax rate of 29.1 % after 39.4 % (adjusted) the previous year. The significant decline is attributable to non-deductible expenses in the Group the previous year. Most of the taxes are paid in Germany.

Please see the Note 'Customer Groups' in the Notes to the Consolidated Financial Statements for the development of the results of the individual segments.

The asset situation

Total assets declined slightly by 1.2 % to € 19.8 billion as at the balance sheet date after € 20.0 billion as at 31 December 2012. The fact that there have been hardly any changes to the structure of our balance sheet is evidence of the continuity of our business model.

We have amended the disclosure of our security in the derivatives business as the security itself does not represent securities held for trading. Security reported under trading assets and liabilities, respectively, so far is now reported under loans and advances to customers/banks and customer accounts/deposits by banks, respectively. Furthermore, we no longer report the securities repurchase and lending business under trading assets and liabilities, respectively, but under other loans and advances in loans and advances to customers/banks and under other liabilities, respectively, in customer accounts/deposits by banks. We have adjusted the prior-year figures correspondingly. We refer to the adjusted prior-year figures in the following presentation of the changes versus the previous year.

Customer deposits remain our most important source of refinancing. At € 12.2 billion they accounted for around 61.6 % of total equity and liabilities on the balance sheet date. We therefore succeeded in fully compensating for the decline in customer deposits associated with the withdrawal from Luxembourg by increasing inflows in Germany. We continue to regard this as our clients' appreciation of the Bank's solid business policy and high credit standing. As part of the HSBC Group, HSBC Trinkaus is still the highest-rated private commercial bank in Germany with a 'AA- (Stable)' Fitch rating.

Deposits by banks of € 1.3 billion were almost unchanged compared to the previous year.

In addition, we also refinance our business, above all our trading assets, from promissory note loans, warrants, certificates and convertible bonds, which we report under trading liabilities. On the balance sheet date they amounted to € 2.1 billion versus € 2.2 billion the previous year. Trading liabilities also include the negative market values of the derivatives which declined in keeping with the positive market values in trading assets.

We refer to the section on our financial position for the increase in shareholders' equity.

The cash reserve amounted to € 1.1 billion versus € 0.3 billion the previous year.

Loans and advances to banks of € 1.6 billion were almost unchanged compared to the previous year.

The € 0.3 billion increase in loans and advances to customers to € 4.9 billion corresponds to the growth strategy we have embarked upon in the corporate banking business. Loan accounts grew by € 0.5 billion. We see further growth potential as firstly, the credit lines granted to our clients were underused and secondly, we are already planning a significant increase in lending for 2014 within the scope of our growth strategy.

With a share of around 34.1 % and 41.2 % the previous year, trading assets still represent the largest item on the assets side of our balance sheet. Bonds, which are mostly exchange-traded and also eligible, account for a lower, but still high share. They are used among other things to provide collateral for derivatives vis-à-vis the corresponding exchanges. The decline in trading assets from € 8.3 billion the previous year to € 6.8 billion is attributable essentially to declines in bonds and other fixed-income securities and the positive market values of our derivatives as well as a counteractive increase in equities and other variable-income securities. The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives reported under liabilities held for trading.

Financial assets of € 5.1 billion were hardly changed compared to the previous year. Financial assets also consist mainly of exchange-traded and eligible bonds serving as a liquidity cushion which we have continuously expanded in recent years. We have a very limited exposure in the peripheral states in the Eurozone in both the trading portfolio and financial assets.

The financial position

(a) Capital

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

The regulatory approach and the fulfilment of the regulatory requirements are supplemented by economic analysis of the capital requirements. Please see the section on ICAAP in the chapter 'Risk management at HSBC Trinkaus'.

No capital increases were carried out in the HSBC Trinkaus Group in 2013, not even for supplementary capital. HSBC Trinkaus & Burkhardt AG transferred around € 55 million from the previous year's profit available for distribution to retained earnings in accordance with the resolution passed by the Annual General Meeting on 4 June 2013. At this year's Annual General Meeting on 3 June 2014 we will propose the payment of an unchanged dividend of € 2.50 per share enabling a further allocation to retained earnings of € 105 million from profit available for distribution according to the German Commercial Code (HGB).

aa) Applicable law up until 31 December 2013 ('Basel II')

Capital consists of Tier 1, Tier 2 and Tier 3 capital. Following approval of the accounts Tier 1 capital for the HSBC Trinkaus Group stood at € 1.3 billion (31 December 2012: € 1.2 billion) and Tier 2 capital at € 0.3 billion (31 December 2012: € 0.3 billion) as at 31 December 2013, giving total liable capital of € 1.6 billion (31 December 2012: € 1.5 billion).

The Bank's risk positions as at 31 December 2013 stand at € 11,125.0 million, of which risk-weighted assets account for € 8,262.0 million, the market risk equivalent for € 1,538.0 million and operational risk for € 1,325.0 million.

Following approval of the accounts this gives a Tier 1 capital ratio for the Group of 11.7 % (31 December 2012: 12.9 %) and a regulatory capital ratio for the Group of 14.7 % (31 December 2012: 16.6 %) as at 31 December 2013.

(ab) New law from 1 January 2014 ('Basel III')

The Capital Requirements Regulation (CRR) also immediately came into force in Germany as a European law with effect from 1 January 2014. The CRR contains large parts of the changes to the regulatory requirements known as 'Basel III'. This regulation focuses on the definition of capital as well as the related capital requirements.

As HSBC Trinkaus has issued no hybrid capital, the impact of the stricter definition of capital is limited for the Bank. The CRR essentially involves the following changes for HSBC Trinkaus in the definition of capital:

Common Equity Tier 1 Capital

- The special item pursuant to section 340g of the German Commercial Code (HGB), which is to be set up depending on average net income from the trading portfolio, can no longer be qualified as liable capital.

- The assets reported in the balance sheet (net asset position) resulting from the financing of the pension obligations are to be deducted from Common Equity Tier 1 Capital.

Common Equity Tier 1 Capital and Tier 2 Capital

- The accounting standards binding under commercial law, in other words IFRS for HSBC Trinkaus, are to be applied for the calculation of liable capital, whereas a calculation based on HGB has also been permitted to date.

- There are significant changes to the recognition and calculation standards for hidden reserves in securities held in the investment portfolio.

Tier 2 Capital

- Instruments in Tier 2 Capital are already phased out of liable capital from five years before maturity, whereas they were phased out from two years before maturity to date.

All other changes compared to the definition of capital according to the German Banking Act (KWG) to date are either not relevant for HSBC Trinkaus or have no significant impact. For example, the discontinuation of Tier 3 Capital in the new definition of capital is of no significance for us as we have not used any thus far.

As HSBC Trinkaus has issued no additional Tier 2 Capital instruments, total capital consists exclusively of Common Equity Tier 1 Capital.

(ac) Outlook

The CRR includes comprehensive and extremely complex transitional rules, in particular for the calculation of capital. Certain items are only successively recognised as capital (phase-in), other items are successively no longer recognised as components of capital (phase-out). Overall, though, they will result in no substantial changes for HSBC Trinkaus in the years ahead, either on Bank or Group level.

(b) Liquidity

Irrespective of the extent of the capital, liquidity is the decisive factor for banks to be able fulfil all of their contractual obligations in times of crisis as well. The rules on liquidity are a key feature of the CRR and go far beyond the regulatory requirements to date. Owing to the very high level of customer deposits together with a considerable liquidity cushion on the assets side, HSBC Trinkaus is still in a very comfortable liquidity position which also significantly exceeds the new regulatory requirements. Please see the section on Liquidity Risk in the Risk Report for details of how we manage liquidity risk.

Supplementary Report

Material events occurring after the balance sheet date

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

Outlook and Opportunities

The macroeconomic point of departure in 2014 is favourable for Germany. Thanks to dwindling fears over the break-up of the single currency area, the cyclical stabilisation in the peripheral states, better capacity utilisation and far more favourable financing terms for German industry, the way has been paved for an upturn in investment in 2014. The German labour market is also likely to continue to benefit from this with a new record high in the number of persons in employment. With a view to optimism among German companies and despite the possible negative implications of the introduction of a statutory minimum wage in the medium term, the prospects are therefore positive. The good employment prospects, rising wages, moderate inflation and only little incentive to save owing to the ECB's zero-interest-rate policy are creating a consumer-friendly environment. The solid domestic economy should therefore turn out to be the supporting pillar for German economic activity and enable growth of 1.7 % in 2014.

The economy in the Eurozone should also return to its expansion path this year, but it will be too weak to drive inflation as the labour market remains underutilised and no pressure on wages is therefore arising. After moderate price inflation of only 1.4 % last year, inflation threatens to slow even further in 2014 in this environment. This prompted the ECB to lower the key interest rate for the second time in one year in November, this time by 25 basis points to 0.25 %. With a view to the continuing disinflationary tendencies, the doors for easing measures remain wide open.

The picture is being clouded over by the continuing tensions several emerging market countries are feeling. They have high current account deficits and their currencies have come under major pressure since the initial announcement of tapering by the US central bank. German exports to these countries are affected by this. There is a risk that these tensions can extend into crises and that global growth and therefore also the resulting impetus for Germany can slow down.

While the overall economic environment should be solid and supportive for HSBC Trinkaus owing to its business focus on Germany, other framework conditions will have a detrimental effect on the earnings situation in 2014. These include the extremely low level of money market interest rates. The Bank's solid deposit base has lost a great deal of its significance owing to the surplus liquidity provided by the ECB and a positive interest margin in the Bank's deposit-taking business can no longer be achieved, as a result of which net interest income is declining. A particularly negative development is likely to arise should the ECB lower the interest rate for the deposit facility from 0 % at present into the negative zone.

Our advances to core funding ratio will probably deteriorate slightly as a result of the more than proportionate expected growth in the lending business compared to the planned deposit growth.

Changes to the external statutory and regulatory framework and the fact that their implementation cannot be planned in the long term will potentially put pressure on the Bank's earnings situation and lead to significantly higher administrative expenses. This could include the introduction of a financial transaction tax which could represent a considerable risk for the Bank's business activity depending on its configuration.

We concentrate on the business with clearly-defined client target groups, supplemented by trading activities which are geared primarily to their requirements. This business model comes far closer to the objective of the global regulators than that of banks which have strong investment banking activities, are dependent on proprietary trading and refinance themselves via the capital markets. The capital base has been strengthened further in recent years owing to the solid earnings situation by the significant retention of profits and exceeds the regulatory requirements. Thanks to the successful 2013 financial year, in which we met the revenue, cost and earnings forecasts, we have created a stable foundation for the years ahead.

In 2014, HSBC will continue to implement the growth initiative started in mid-2013, which focuses on the business with SME corporate clients, but also provides for the expansion of the Global Banking & Markets business.

The ambitious targets of the growth initiative, if it is implemented as planned, are likely to lead to increased capital requirements which can no longer be satisfied by retaining profits. The HSBC Group has expressed its willingness to support the capital measures that will then be required by HSBC Trinkaus. However, no date for a capital increase has yet been specified.

We are expecting an increase in revenues in the mid single-digit percentage region for 2014, although we first have to compensate for the decline in revenues on account of our withdrawal from Luxembourg which will affect above all Global Private Banking and cannot be offset in this business segment. Commercial Banking, with significant double-digit growth in revenues, is likely to be the growth driver while the activities in Global Banking & Markets and in Asset Management are likely to grow moderately. Our forecast therefore envisages far stronger growth than the market and clear market share gains in the German banking market.

The up-front expenses for the expansion of business activities, which includes among other things opening four additional branches for corporate banking, are the result of a significant increase in the number of employees for the business with SME corporate clients and the corresponding extension of the product offers such as payments (global payments and cash management), trade finance and receivable finance. But the Bank's service divisions and the central functions such as HR, risk and financing are also being expanded correspondingly. In addition, there are many projects to expand IT support of the business and set up the necessary capacities. According to plan, this will lead to a double-digit increase in administrative expenses in addition to the costs that will still arise in 2014 as a result of the withdrawal from Luxembourg. Consequently, the Bank's cost efficiency ratio will rise again after the improvement last year and could easily exceed the 70 % mark.

An expansion strategy means higher risks, but also greater opportunities. This applies above all to the expansion of the lending portfolio with SME corporate clients. However, the positive trend in the German economy in a European context makes these risks appear acceptable. Credit margins are falling below the level of adequate risk premiums again at present as a result of the surplus supply of liquidity. Nevertheless, we are prepared to expand lending if there is corresponding demand from our clients. We expect the risk provisioning requirements to turn out to be far higher than in 2013, especially as growth in lending will be accompanied by higher collectively assessed impairments. The expansion of the target ratings in the corporate banking business will also involve higher capital backing alongside higher risk provisioning requirements. We are therefore expecting significant pressure on the Tier 1 capital ratio and regulatory capital ratio. As our portfolio is characterised by differing levels of concentration, a small number of problem cases can already lead to significant individual impairments which could put pressure on the result contrary to what was planned.

We are therefore expecting a single-digit percentage decline in pre-tax profit for the year. This will also be accompanied by a temporary decline in the return on equity. However, it will remain in double figures and therefore be comparatively high in Germany. The significant expansion of the business with the necessary investments can therefore be realised without a sharp decline in earnings if there are no surprise loan losses; if the interest, foreign-exchange and equity markets are not subjected to any shocks; and if the external influences on the Bank's client-oriented business model remain controllable.

If they offer synergies with our existing lines of business, we will closely examine opportunities to make acquisitions. The acquisition of interesting client portfolios cannot be ruled out either if it serves to expand the Bank's client base.

We are optimistic for 2014 and are happy to rise to the challenges presented by the German market to meet the goals we have set ourselves for business growth. The implementation of our plans should enable us to pay our shareholders an appropriate dividend and further strengthen the Bank's capitalisation by retaining profits in the years ahead as well.

Risk Report

Risk management at HSBC Trinkaus

Definition

In accordance with German Accounting Standard No. 20 (DRS 20), we understand by Risk Management System all rules which guarantee the structured handling of risks and opportunities and risks, respectively, in the Group.

Principles of risk management policy

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

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

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

Since the beginning of the banking crisis and the collapse of the US investment bank Lehman Brothers, the old principle of 'liquidity before profitability' has proven to be extremely valid in a market environment which has undergone drastic change. Issues relating to the Bank's liquidity position remain of the greatest priority for us. We have expanded our strong liquidity reserves further and paid strict attention when investing the funds accruing in the money and capital to maintaining liquidity as best as possible, even though other forms of investment would have brought significantly higher returns in part. We are aware at HSBC Trinkaus that we work with money deposited by our investors who entrust us with their funds. The new banking supervisory liquidity provisions confirm our cautious stance and we are making adequate provision in accordance with the new requirements.

The second central challenge facing our risk management was and is managing counterparty credit risk. Events during the euro debt crisis including the developments in Greece and Cyprus have clearly shown that loan losses cannot be ruled out in Eurozone states either. As a result of the ECB's expansionary monetary policy, the risk situation eased in the period under report. Whether this easing will last and the weak credit rating of individual Eurozone states fundamentally improve will only be seen in the years ahead.

Germany was not able to realise the expected economic growth in 2013. Owing to the nevertheless relatively favourable economic situation compared to the Eurozone in particular, only limited individually assessed impairments were reported in the Bank's income statement. However, collectively assessed impairments increased further owing to growth in lending. As the growth prospects for 2014 are positive, we are confidently implementing our growth strategy in the corporate banking business. This is based on the redefinition of the Bank's appetite for risk which takes the growth in our capital base and our earnings strength into consideration.

As in the previous year, the market fluctuations on the equity, foreign exchange and interest rate markets were limited. The market risk limits were used only to a limited extent. There were no backtesting anomalies in respect of market risk throughout the Bank.

Risk management – organisational structure

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

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

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

In accordance with the concept of the HSBC Group, each division of the Bank draws up risk and control assessments which show the main risks and the key controls. Each division also has a Business Risk and Control Manager who examines the observance of the controls envisaged in the daily work processes. The Operational Risk and Information Security support function is responsible among other things for assuring the quality of the Risk and Control Assessments and carrying out the controls. This organisational structure guarantees that risks are promptly identified and that suitable measures are taken in good time – also taking the Bank's size and degree of specialisation into consideration. It should be noted nonetheless that unforeseen risks arise and can never be ruled out completely.

This is why short routes to the management, a clear awareness on all hierarchical levels of the risks entered into and the constant further development of risk management are decisive.

Internal Capital Adequacy Assessment Process

Our capital management, which is geared towards the regulatory requirements, is also complemented by analysis of the economic capital requirement (Internal Capital Adequacy Assessment Process, ICAAP). ICAAP is based on the second pillar of the Basel capital requirements framework and fulfils the Minimum Requirements for Risk Management (MaRisk) stipulated by the Federal Financial Supervisory Authority (BaFin). According to MaRisk, banks must set up strategies and processes which ensure that enough internal capital is available to cover all main risks, in other words that their risk-bearing capacity is permanently guaranteed. ICAAP represents an integral part of risk management at HSBC Trinkaus which is embedded into the risk management process and is constantly being developed further.

The analysis of risk-bearing capacity also comprises types of risk that are not included in the regulatory requirements for the capital adequacy of banks. The comparison of the economic capital requirement is carried out for various scenarios which are completed by associated stress assessments. The so-called 'inverse stress tests' represent a special form of stress test. MaRisk requires the analysis of scenarios which could lastingly endanger the Bank's continued existence. This analysis is aimed at identifying extreme scenarios in order to gain a better view of potential bank-specific risks.

The theoretical methods and models for quantifying the economic capital requirement are at varying stages of development in the different types of risk. In line with a conservative approach, diversification effects are not taken into consideration at HSBC Trinkaus.

We continue to adjust the calculation of economic capital requirements to meet the growing challenges we face. Risk-bearing capacity is analysed on a quarterly basis and the underlying methods are discussed in detail in the Capital Steering Committee. The minutes of the Capital Steering Committee are forwarded to the overall Management Board. ICAAP is also discussed once a year in the Risk Committee of the Supervisory Board. Ultimately, the Bank's risk-bearing capacity is unchanged and its capitalisation adequate.

Restructuring plan

Owing to its integration into the globally represented HSBC Group, which with total assets of more than USD 2,700 billion and capital of over USD 170 billion is one of the world's most significant and best-rated banks, HSBC Trinkaus has drawn up a restructuring plan in accordance with the regulatory requirements. This restructuring plan comprises a detailed description of the legal structures and business activities of the HSBC Trinkaus Group. It defines possible situations in which the earnings situation, capitalisation or liquidity position could come under pressure and represent a risk for the Bank. Possible alternative courses of action are shown for these situations which enable the Bank to return to a normal operating mode. Indicators guarantee that the Management Board is informed early on and that possible countermeasures are introduced. The objective of this restructuring plan is to keep the Bank from becoming reliant upon government aid in the event of a crisis. The plan is updated annually and included in the audit of the finacial statements.

Risk categories

Strategic risk

By 'strategic risk' we mean possible changes in the market environment, in the regulatory and legislative framework and in the Group's efficiency which could have a detrimental effect on earning power in the medium term. It arises to begin with from the changed environment in which banks now have to operate. The new provisions relating to capital adequacy and refinancing of the banking business will lower the profitability of our client-oriented business irrespective of the adjustment measures we carry out. This trend, which will be strengthened by increased costs resulting from other regulatory provisions, will not only apply to our Bank, though. Furthermore, legislative steps such as the introduction of a transaction tax or restrictions on the sale of financial products can have a lasting negative impact on the Bank's earnings base. Strategic risk also arises from our strategic orientation with its very selective client focus as there is strong competition for our clients owing to their significance in the market.

HSBC Trinkaus' strategic position includes the risk arising from the fact that a large proportion of our revenues is dependent on our clients' activities on the equity, bond, forex and derivatives markets and also on the capital markets' capacity to absorb new issues of interest-rate and equity products. The diversification of our business activities can only counteract this risk to a limited extent. For example, we will strengthen our corporate banking business and expand the foreign business, payments transactions and receivable finance. To a certain extent, we can also counteract this risk in a targeted way thanks to our strong integration into the HSBC Group through the large range of products available to the Bank as well as the global service offer we can rely on for our clients.

We are confident that HSBC Trinkaus' strategic position in Germany will not deteriorate as we have been able to improve our market position in all client segments in recent years. The risk premiums for counterparty credit risk are currently declining again to a level seen before the financial crisis. Individual banks with low return on equity requirements are exerting a certain amount of pressure on prices and the margins no longer correspond to the risk from a full credit cycle, but only reflect the currently good cyclical environment. This trend is being strengthened above all by the ECB continuing to provide the euro money market with excess liquidity. A clear oversupply of loans can be ascertained in Germany in particular which means that availment is declining further relative to the lines granted. The low-interest-rate environment, which is leading to the devaluation of deposit operations financed mainly by customer deposits, represents a new challenge.

As regards the further modernisation of our IT architecture, we have started to systematically work off the backlog of demand and – alongside the regulatory requirements – provide further support for our client services. Adjusting to new technologies and to the changed environment will require the use of significant personnel and financial resources in future as well. These investments will be accompanied by increased expenses for licence and maintenance fees for third-party software and write-downs on software and hardware leading to a further increase in costs for the Bank. We are therefore cooperating actively in the HSBC Group's projects aimed at increasing the efficiency of the Bank's operating processes and streamlining the organisation overall. This also includes the use of the HSBC Group's offshore opportunities which we are increasingly using for the provision of services.

The Bank is gearing itself up for comprehensive new regulatory controls as a consequence of the financial market crisis. The regulations submitted by far exceed the scope and complexity of the regulations to date. Implementing them represents a major challenge both technically and with respect to IT resources. This means not only the effort of introducing the new controls, but also complying with the rules and reporting obligations in ongoing operations. The transfer of government tasks to the banks, such as the collection of the flat-rate withholding tax, will also lead to a permanent increase in regulatory costs. The Bank's fixed costs will increase substantially irrespective of its earnings opportunities and exert a significant influence on the minimum cost-efficient operating size of the Bank. Nevertheless, we admit that greater regulatory control has also been brought about by a few banks' acting irresponsibly, which has to be prevented in future. The structural and lasting decline in the return on equity associated with the process of transformation in the banking sector will have a fundamental effect on all banks. HSBC Trinkaus is already actively preparing for the changes ahead.

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

On a positive note, the Bank's strategic orientation has proven itself in the crisis and we are confident that we will be able to successfully implement the growth initiative thanks to our consistent client orientation and good capitalisation.

Counterparty credit risk

(a) Definition

Counterparty credit risk is understood as the partial or complete default on loans or other debt instruments. It means the risk of the partial or complete default by a business partner on a contractually defined performance. Where this risk relates to circumstances resulting from government action it is known as 'sovereign risk'. The counterparty credit risk can be divided into credit, issuer and counterparty risk. Credit risk is the risk that a contractual partner cannot meet its obligations under loan agreements. Issuer risk is the risk of the issuer of a security defaulting. Counterparty risk is understood as the risk of not receiving contractually agreed consideration as a result of the default of a contractual partner, although own performance was rendered.

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

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

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

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

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

(b) Credit risk strategy

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

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

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

(c) Risk classification systems

The Bank uses a 23-stage rating system to classify the credit quality of its clients. We use four different rating systems which cover the customer groups international corporations, German SMEs, banks and financial service providers. The rating systems are supplemented by risk classification systems for wealthy private clients and German federal states.

The rating system for clients in the German SME segment was developed independently by the Bank. It is based on a statistical component for assessing the borrower's financial situation from its financial data. We developed this component with the help of internal client data. This is supplemented by an expert system for the qualitative evaluation of the customer and its economic environment by the responsible customer service officer. The rating system is completed by a set of rules for recognising liabilities within corporations.

The rating systems for large international corporations, banks and financial service providers were adopted by the Bank from the HSBC Group after an internal inspection of their suitability. We therefore indirectly use the extensive data history and the additional expertise of the specialists within the HSBC Group for the internationally-oriented portfolios. HSBC's rating systems are supplemented by a qualitative evaluation of the companies and their economic environment which is drawn up by the responsible customer service officer and the local credit experts. This evaluation is supplemented by the statistical analysis of financial data and analysis of the sector and country risk.

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

For German federal states there is also an essentially qualitative risk classification system which is based on the parameters of gross domestic product per capita, indebtedness per capita, size of the population as well as payments to or from the federal state fiscal equalisation scheme.

All risk-classification systems are validated on an annual basis. External portfolio data such as a large external database of German companies are also used for this.

The Bank uses the rating systems described above as internal models for calculating the capital adequacy of default risks according to the IRB Foundation approach. Accordingly, only PD assessments are determined. The standard regulatory parameters are taken as a base for loss given default and exposure at default. However, the Bank plans to introduce the IRB Advanced approach in the medium term. By way of preparation for this, the Bank has already been using an in-house model to assess the loss given default since December 2012 within the scope of the calculation of the economic capital requirements. Furthermore, we will use a model for the assessment of the exposure at default to calculate the economic capital requirement from January 2014.

The Risk Control team is responsible at HSBC Trinkaus for the maintenance, monitoring and further development of the systems for measuring credit risk, especially the in-house SME rating system.

(d) Limits

In accordance with the statutory provisions (approval powers), the Management Board has duly delegated loan approval authority (differentiated by exposure, seniority of the person responsible and creditworthiness) relating to large and intra-entity loans. Qualifications and credit experience are the yardsticks used to determine the extent of an employee's credit-approval authority.

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

Sovereign risk is limited and monitored separately. Country limits are approved by the Management Board and the Audit Committee of the Supervisory Board and these are reviewed at least annually on the basis of political and economic analyses of the countries in question. In this context, the Bank makes use of the comprehensive expertise available to it through HSBC's global office network.

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

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

e) Organisation of the credit process

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

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

Based on its clients' needs, before a loan is approved the Bank examines the various options available for structuring a credit facility. These include, for example, syndications and loan securitisation using promissory note loans, or the issue of bonds.

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

In the case of non-performing, doubtful or problematic debts, strategies and solutions are worked out by teams consisting of employees from the client relationship, credit and legal departments under the direction of the back office.

We set up net loan impairment and other credit risk provisions for loan exposures with a high risk of default, in other words if there are objective, substantial indications. In order to calculate this provision, the future payments from the loan and if necessary from the realization of security is estimated throughout the term of the loan. We can thus compare the cash value of these payments with the book value of the loan exposure. The net loan impairment provision fully covers the shortfall calculated in this way.

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

(f) Maximum default risk

The maximum default risk pursuant to IFRS 7 corresponds to the book value of the financial assets including OTC derivatives. Exchange-traded derivatives are not subject to default risk on account of the margin system.

As regards the furnishing of financial guarantees and loan commitments, the maximum default risk corresponds to the exposure.

The following table shows the Bank's theoretical maximum default risk as at the balance sheet date disregarding collateral received and other risk-reducing techniques.

	31.12.2013		31.12.2012*	
	in €m	in %	in €m	in %
Loans and advances	6,501.4	25.2	6,105.5	23.3
to banks	1,643.8	6.4	1,551.2	5.9
to customers	4,857.6	18.8	4,554.3	17.4
Trading assets	6,440.3	25.0	8,027.1	30.6
Bonds and other fixed-income securities	2,484.0	9.6	3,853.2	14.7
Equities and other non-fixed-income securities	1,393.4	5.4	807.9	3.1
Tradable receivables	1,420.3	5.5	1,770.9	6.7
OTC derivatives	1,136.6	4.4	1,595.1	6.1
Derivatives in hedging relationships	6.0	0.0	0.0	0.0
Financial assets	5,124.8	19.9	5,068.3	19.3
Bonds and other fixed-income securities	4,693.7	18.2	4,612.9	17.6
Equities	29.9	0.1	38.9	0.1
Investment certificates	95.5	0.4	80.2	0.3
Promissory note loans	209.1	0.8	235.6	0.9
Investments	96.6	0.4	100.7	0.4
Contingent liabilities	1,621.4	6.3	1,805.6	6.9
Loan commitments	6,109.4	23.6	5,253.7	20.0
Total	25,797.3	100.0	26,260.2	100.0

* Prior year's figures adjusted. The adjustments are explained in Note 18.

Netting agreements, where offsetting contracts with one customer can be netted against each other under certain conditions, are concluded specifically in the derivatives business or agreements over guarantees for market values in the form of specific collateral. These agreements significantly reduce the maximum default risk shown above (cf. (h) Information on credit quality – OTC derivatives).

(g) Collateral and other risk-reducing techniques

The provision of collateral is agreed in principle where necessary, for example with long-term financing, borrowers with weaker credit ratings or pure loans against securities.

The following tables show the correlation between the maximum default risk in the credit portfolio and the financial collateral (excluding guarantees):

in €m	31.12.2013				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Total	1,643.8	4,857.6	1,621.4	6,109.4	14,232.2
of which uncollateralised	1,593.0	3,736.1	1,331.7	6,065.3	12,726.1
of which fully collateralised	1.4	475.5	113.4	30.5	620.8
of which party collateralised	49.4	646.0	176.3	13.6	885.3
Amount of partial collateralisation	2.0	412.2	73.5	10.9	498.6

in €m	31.12.2012*				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Total	1,551.2	4,554.3	1,805.6	5,253.7	13,164.8
of which uncollateralised	1,473.0	3,651.9	1,619.1	5,120.2	11,864.2
of which fully collateralised	73.2	353.1	104.2	128.2	658.7
of which party collateralised	5.0	549.3	82.3	5.3	641.9
Amount of partial collateralisation	4.5	397.9	50.3	4.3	457.0

* Prior year's figures adjusted. The adjustments are explained in Note 18.

HSBC Trinkaus uses internally-developed IT systems to record and monitor loan collateral. The allocation of the collateral to a credit line is carried out in the line system.

Where financial guarantees are assumed, the accounts and securities accounts pledged are recorded in the IT system and valued daily using a program which links the key data of the guarantees to the account and securities account data. Standard loan-to-value ratios for various financial guarantees are predetermined for the valuation, from which the person responsible can deviate if necessary by making decisions in individual cases (e.g. to avoid cluster risks). If no standard loan-to-value ratios are defined for certain securities, an individual decision is made with the help of the person responsible for the loan as to whether they can be recognised as collateral.

Financial guarantees in the form of pledged accounts and securities accounts at third-party banks are accepted only in exceptional cases. A valuation is carried out only if we receive account statements regularly and promptly from the third-party bank and we are satisfied with the quality of the third-party bank. Our aim is always that the financial guarantees are transferred to us.

Warranties and guarantees are valued on the basis of the amount of the guarantee specified in the contract and the credit standing of the guarantor. In contrast, physical collateral (assigned receivables and rights and transfers of title to objects as security) are not valued according to fixed rules owing to their special features in each individual case. Instead, all of the relevant risk parameters are taken into consideration. For example, when carrying out the valuation, the legal status of the collateral agreement and the credit quality of the receivables assigned are taken into account. With transfers of title as security the location, the realisability of the tangible assets as well as the volatility of the market values are taken into consideration in the valuation. Depending on the result of this analysis, a valuation mark-down is determined for each collateral provided.

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

Government and private loan insurance and bank guarantees in particular are considered as collateral in the international business. Guarantees from private loan insurers also form the basis for the receivable finance business. They are valued at the amount guaranteed.

The collateral provided is examined at regular intervals. With charges on property, the property serving as security is to be revalued after 5 years at the latest. If the loan secured by a charge on property exceeds the normal lending framework of 50 % or 60 % of the value of the property serving as collateral, an annual revaluation is required, however. As regards assignments and transfers of title as security, it is to be determined by the persons responsible how often and to what degree of detail corresponding proof of collateral is to be submitted by the customer.

The collateral value, if necessary allowing for upper limits (to avoid cluster risks), is automatically taken into consideration in the risk statement in respect of valued collateral.

The proper provision of collateral for a credit line is monitored with the help of the line system.

(h) Information on credit quality, loans and advances as well as contingent liabilities and loan commitments

in €m	31.12.2013				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	1,643.8	4,816.3	1,621.4	6,108.0	14,189.5
Overdue, but not impaired	0.0	20.1	0.0	0.0	20.1
Individually impaired**	0.0	21.2	0.0	1.4	22.6
Total	1,643.8	4,857.6	1,621.4	6,109.4	14,232.2

in €m	31.12.2012*				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Neither overdue, nor impaired	1,551.2	4,521.2	1,804.6	5,251.5	13,128.5
Overdue, but not impaired	0.0	0.8	0.0	0.0	0.8
Individually impaired**	0.0	32.3	1.0	2.2	35.5
Total	1,551.2	4,554.3	1,805.6	5,253.7	13,164.8

* Prior year's figures adjusted. The adjustments are explained in Note 18.
** Including the setting-up of credit risk provisions

Trading assets and financial assets (exclusively bonds)

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

in €m	31.12.2013			31.12.2012		
	Trading assets	Financial assets	Total	Trading assets	Financial assets	Total
AAA	1,133.2	1,985.8	3,119.0	2,027.6	2,077.0	4,104.6
AA+ to AA–	1,188.0	1,578.0	2,766.0	1,590.7	1,388.9	2,979.6
A+ to A–	50.0	550.2	600.2	115.2	623.6	738.8
BBB+ to BBB–	90.4	459.1	549.5	94.7	304.7	399.4
Lower than BBB–	2.7	111.2	113.9	7.0	87.5	94.5
No rating	19.7	9.4	29.1	18.0	131.2	149.2
Total	**2,484.0**	**4,693.7**	**7,177.7**	**3,853.2**	**4,612.9**	**8,466.1**

OTC derivatives

For an assessment of the credit quality of OTC derivatives, their market values are classified by borrower origin and type below:

		31.12.2013		31.12.2012	
		in €m	in %	in €m	in %
OECD	Banks	932.1	81.6	1,318.5	82.7
	Financial institutions	53.6	4.7	67.8	4.3
	Other	156.6	13.7	206.8	13.0
Non-OECD	Banks	0.3	0.0	1.1	0.1
	Financial institutions	0.0	0.0	0.0	0.0
	Other	0.0	0.0	0.7	0.0
Total		**1,142.6**	**100.0**	**1,595.1**	**100.0**

The economic exposures of the OTC derivatives (including collateral) are also shown in the following table.

in €m	31.12.2013					
	Positive market values before netting and collateral agreements	Add-on before netting and collateral agreements	EAD before netting and collateral agreements	Netting agreements	Eligible collateral	EAD after netting and collateral
No netting	245	218	463			463
Netting & cash collateral	898	287	1,185	790	198	197
Total	**1,143**	**505**	**1,648**	**790**	**198**	**660**

An add-on is the risk mark-up depending on the underlying instrument and the term of the derivative. Only those agreements that are recognisable as nettable for supervisory purposes are netted under netting & cash collateral.

(i) Information on exposures which are neither overdue nor impaired

We determine the quality of the loans and advances including contingent liabilities and loan commitments which are neither overdue nor impaired by means of an internal rating procedure. Allowing for risk-reducing elements, such as collateral, the loan exposures can be mapped onto 7 credit categories. Credit categories 1 to 5 comprise as a rule exposures which are neither overdue nor impaired. The credit quality as at the balance sheet date was as follows:

in €m	31.12.2013				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1 – 2	1,562.4	1,442.0	851.3	3,005.5	6,861.2
Credit categories 3 – 4	81.4	3,219.4	756.0	3,005.2	7,062.0
Credit category 5	0.0	154.9	14.1	97.3	266.3
Total	**1,643.8**	**4,816.3**	**1,621.4**	**6,108.0**	**14,189.5**

in €m	31.12.2012*				
	Loans and advances to banks	Loans and advances to customers	Contingent liabilities	Loan commitments	Total
Credit categories 1 – 2	1,435.4	1,837.4	1,000.8	2,608.2	6,881.8
Credit categories 3 – 4	115.8	2,645.5	770.9	2,569.3	6,101.5
Credit category 5	0.0	38.3	32.9	74.0	145.2
Total	**1,551.2**	**4,521.2**	**1,804.6**	**5,251.5**	**13,128.5**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

As in the previous year, no restructuring of individual loan agreements was carried out to avoid individually assessed impairments.

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

The Bank's loans and advances which have not been impaired although overdue amounted to € 20.1 million on the balance sheet date (2012: € 0.8 million) and are exclusively to customers. € 19.4 million (2012: € 0.7 million) is the result of the purchase of credit-insured accounts receivable. The fair value of the collateral stood at € 19.5 million (2012: € 0.6 million). We have not carried out a corresponding impairment as we assume that the loans can be repaid in full. Of the overdue, but not impaired receivables, € 0.2 million is less than 30 days overdue, € 18.2 million between 30 and 90 days overdue, € 1.7 million more than 90 days and € 0.0 million more than one year overdue.

(k) Information on exposures for which net loan impairment risk provisions have been set up

HSBC Trinkaus creates net loan impairment provisions as soon as there are objective, substantial indications that the value of a financial asset is reduced. Such indications include the following: substantial financial difficulties on the part of the debtor as well as the associated concessions we make in respect of the borrowers, breaches of contract such as default or arrears in respect of interest and redemption payments, the risk of insolvency proceedings or other capital restructuring requirements, the disappearance of an active market for this financial asset, other indications suggesting that the recoverable sum is below the book value for this type of loan as well as the substantial reduction in value of the loan collateral if the loan is to be based essentially on the collateral. If one of these indications exists, the amount of the impairment is calculated from the difference between the book value and the cash value of the expected payment flows. If no statistically reliable comparative data are available, the probable recoverable sum is to be estimated on the basis of a competent, experienced assessment by a back office employee. Problematic exposures, for which net loan impairment and other credit risk provisions have been set up, are classified as being in default in terms of their credit rating and are therefore automatically assigned to the credit category 6 or 7. In order to allow for country risks, net loan impairment and other credit risk provisions can also be set up for exposures with higher credit ratings. Net loan impairment and other credit risk provisions for country risks stood at € 1.1 million in the year under report (2012: € 1.0 million).

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

in €m	31.12.2013			31.12.2012		
	Loans and advances to banks	Loans and advances to customers	Total	Loans and advances to banks	Loans and advances to customers	Total
Book value before IAI*						
Credit category 6	0.0	16.0	16.0	0.0	29.9	29.9
Credit category 7	0.0	5.2	5.2	0.0	2.4	2.4
Total	**0.0**	**21.2**	**21.2**	**0.0**	**32.3**	**32.3**
IAI*						
Credit category 6	0.0	10.7	10.7	0.0	11.1	11.1
Credit category 7	0.0	5.0	5.0	0.0	1.8	1.8
Total	**0.0**	**15.7**	**15.7**	**0.0**	**12.9**	**12.9**
Book value after IAI*	0.0	5.5	5.5	0.0	19.4	19.4

* IAI: Individually assessed impairments

In addition to individually assessed impairments, the Bank also carries out collectively assessed impairments. These stood at € 17.7 million (2012: € 12.3 million) for loans and advances and € 5.9 million (2012: € 4.1 million) for contingent liabilities and loan commitments.

Impairments on financial assets came to € 29.7 million (2012: € 33.6 million) as at the balance sheet date.

(l) Information on collateral received

The Bank held no collateral for individually impaired loans and advances on the balance sheet date (2012: € 13.0 million).

(m) Realisation of collateral received and drawing on other credit improvements

Collateral and other credit improvements amounting to € 0.0 million were realised and drawn on, respectively, in the 2013 financial year (2012: € 2.5 million).

(n) Information on default risk concentration

There can be a concentration in the area of credit risk if a large number of debtors pursue similar activities or operate in the same geographical region. The ability of all of these debtors to fulfil their financial obligations to HSBC Trinkaus is then influenced strongly by individual changes in the economic situation, political framework or other conditions. The Bank therefore monitors its credit risk concentrations by sector and region. Furthermore, there can also be a concentration of credit risk if a disproportionately large share of the credit risk is concentrated on individual borrowers. The Bank therefore also monitors the concentration on individual borrowers in order to achieve the greatest possible distribution of the default risk. Further statements on potentially existing concentration risk can be made based on a portfolio model that explicitly takes default correlations over time into consideration.

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

	31.12.2013		31.12.2012	
	in €m	in %	in €m	in %
Risk concentration by sector				
Companies and self-employed professionals	12,372.4	48.0	10,523.8	40.1
Banks and financial institutions	8,543.0	33.1	9,975.7	38.0
Public sector	4,670.8	18.1	5,468.1	20.8
Employed private individuals	211.1	0.8	292.6	1.1
Total	**25,797.3**	**100.0**	**26,260.2**	**100.0**

	31.12.2013		31.12.2012	
	in €m	in %	in €m	in %
Risk concentration by region				
Domestic	16,717.5	64.8	16,811.0	64.0
Other EU (plus Norway and Switzerland)	7,102.2	27.5	7,750.9	29.5
Asia	792.8	3.1	707.6	2.7
Rest of Europe	545.9	2.1	461.4	1.8
North America	366.5	1.4	325.5	1.2
South America	210.6	0.8	145.7	0.6
Africa	34.1	0.1	45.5	0.2
Oceania	27.7	0.1	12.6	0.0
Total	**25,797.3**	**100.0**	**26,260.2**	**100.0**

The breakdown by sector shows that the maximum default risk essentially exists vis-à-vis banking organisations on the one hand and companies and self-employed professionals on the other. Other units of the HSBC Group account for € 2,474.8 million (2012: € 2,963.9 million) of the default risk vis-à-vis banking organisations.

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

There was no exposure to Greece, Ireland, Portugal, Spain, Italy and Hungary as at 31 December 2013. There was exclusively covered bond exposure vis-à-vis banks in Spain and Italy amounting to € 69 million and € 10 million, respectively, while there was no exposure vis-à-vis banks in the other states mentioned. In Spain, Italy, Ireland and Hungary there was exposure vis-à-vis non-banks of € 72 million, € 60 million, € 57 million and € 2 million, respectively, while there was no exposure vis-à-vis non-banks in Greece and Portugal. It can summarised that our credit risks vis-à-vis and in the states mentioned are kept within very narrow limits.

(o) Credit portfolio management

The Credit Risk Control department is responsible for providing the internal risk-weighted assets of the credit positions as well as the analysis of the credit risk on portfolio level. For this purpose the Bank uses a simplified portfolio model based on the credit risk measuring systems established within the scope of the IRBA report. The supervisory model used for calculating capital adequacy assumes high granularity of the portfolio and a strong correlation via a central factor (general economic situation). Certain correlation risks, for example within countries, sectors or also groups, are not shown explicitly. The RiskFrontier portfolio model employed on HSBC level is therefore used parallel to this for validation in order to substantiate the reporting date-related concentration and migration risk. The HSBC Group is naturally exposed to concentrations of credit risk, but these are not significant. The results of the risk analysis of the credit portfolio are included as a credit risk share in the institution-wide Internal Capital Adequacy Assessment Process (ICAAP).

(p) Stress test

Both the regulatory and the economic risk calculation of the credit portfolio are subjected to various stress test scenarios on a quarterly basis. The stress tests are conceived and the calculation and analysis of the results carried out by the Credit Risk Control team involving the credit department and the business divisions. There is extremely close cooperation with respect to both methods and scenarios with the HSBC Group here as well.

Operational risk

We define 'operational risk' as the risk of loss due to the inadequacy or failure or internal processes, people and systems, or due to external events. Operational risk exists in any area of an organisation and embraces a broad spectrum. Legal risk is also regarded as operational risk.

The Bank has installed three safeguarding levels to secure the effectiveness of risk management and the control environment: the first level comprises those responsible for risk and controlling in the business segments and at the subsidiaries who ensure that the key controls are carried out in accordance with the working process descriptions applicable in each case and that the risk is reduced to the degree required from the cost-benefit point of view. For this purpose, all important controls are examined in detail and the results of these examinations formally documented so that the necessary improvement measures can be introduced on this basis if required. The Operational Risk and Information Security teams as well as Compliance monitor the valuation of risk and the execution of the controls in the second level. The third level is covered by the internal audit department within the scope of carrying out audit reports.

The Operational Risks and Internal Controls Committee is the central body responsible for the control of operational risk as well as reputational risk across the board within the Bank. The Committee meets every two months and is chaired by the member of the Management Board member responsible for risk controlling. The Committee represents an important element in the Bank's risk-management organisational structure and enables the integrated cross-divisional control of operational risk in the Bank and the entire HSBC Trinkaus Group.

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

The Bank's Risk Management Committee takes note of the minutes of the committee meetings and discusses particularly important points. If necessary, the Management Board of the Bank is involved to authorise significant losses or decisions made by the Operational Risks and Internal Controls Committee or the Risk Management Committee. This ensures that all Management Board members are constantly informed about current developments and the Bank's risk profile.

Once a year the head of the Operational Risk and Information Security team reports to the Audit Committee of the Supervisory Board on all activities of the team and of the Operational Risks and Internal Controls Committee. This also includes a statement of overall losses including an explanation of particular occurrences.

The Management Board attaches major importance to living a risk culture in the HSBC Group whereby risk is not only identified at an early stage, but also reported directly and openly. The work carried out by the Committee in recent years has significantly increased the awareness of operational risk among all employees. Information concerning operational risk is included in the daily decision-making processes. Every new employee is required to take part in obligatory training on the topic of operational risk.

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

One central method of proactively determining material risk is so-called ‘risk and control assessment’. As part of a structured brainstorming process, the core risks including the core controls are identified and documented for each division or process. The process comprises assessing the expected typical losses from operational risk and also evaluates the extreme risk potential. In this context direct financial costs and indirect consequences for customer service, reputation and supervisory consequences are taken into consideration. Furthermore, we deploy scenario analysis methods to determine the greatest operational risks and use key indicators to identify a change in the extent of the risks and the deterioration of control effectiveness as early as possible.

Operational risk together with its assessment, the supervision implemented, measures introduced as well as losses incurred are formally documented in a system developed by the HSBC Group. The individual business divisions and subsidiaries are responsible for seeing to it that the information recorded reflects the current risk profile at all times.

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

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

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

So-called ‘Business Information Risk Officers’ are appointed for each business segment and each subsidiary. This guarantees that information risks are observed from an integral perspective and that alongside technological, comprehensive specialist, legal and conceptional issues are also taken into consideration.

Observance of the HSBC Group’s guidelines is guaranteed by the integration of the head of the BIRO programme into the corresponding activities of the HSBC Group.

Market risk

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

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

Our value-at-risk model is based on an historical simulation of risk factors over a period of 500 equally-weighted trading days and covers interest-rate, equity, foreign-exchange and volatility risk (see also the Note 'Fair Value of Financial Instruments' in the notes to the consolidated financial statements for the valuation of the financial instruments). The complete remeasurement of all positions is carried out to reflect changes in the market parameters. With respect to interest-rate risk, we consider both general interest-rate risk resulting from a change in the level of market rates and also spread risk between different issuers and issuer classes.

The following are included as risk factors above all:

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

Issuer-specific, idiosyncratic interest-rate risks are still covered outside the risk model through the credit risk process and controlled via issuer risk limits. They are also covered via the regulatory standard approach in the parent company's trading book.

For the purposes of assuring risk assessment quality, we conduct daily back-testing of the model. This involves comparing the evaluated result for the previous day's trading position with the value-at-risk calculated for that position. In addition, the evaluated result taking new business into consideration has also been used in back-testing since 2012. No back-testing anomalies were incurred on trading book level in the Bank in 2013. This continues to suggest that the modelling employed is probably on the conservative side.

The model is used in principle for all of the Group's units and for all trading and investment book holdings. These include the trading and investment books of the parent company and the Luxembourg subsidiaries as well as the special assets liable to consolidation in the investment book. The Group's market risks are listed by risk category in the following table:

in €m		2013			
		31.12.	Maximum	Minimum	Average
Trading book	Interest-rate risk	2.9	2.9	1.0	1.8
	Currency risk	0.1	0.7	0.0	0.1
	Equity/index risk	0.7	4.0	0.6	1.5
	Credit-spread risk	3.1	3.9	2.8	3.4
	Commodities risk	0.0	0.1	0.0	0.0
	Overall risk	**3.6**	**4.7**	**3.2**	**3.9**
Throughout the Bank	Interest-rate risk	4.9	4.9	0.8	2.7
	Currency risk	0.1	0.7	0.0	0.1
	Equity/index risk	1.8	6.2	1.6	3.1
	Credit-spread risk	4.7	5.7	4.7	5.3
	Commodities risk	0.0	0.1	0.0	0.0
	Overall risk	**6.5**	**8.3**	**5.0**	**6.6**

in €m		2012			
		31.12.	Maximum	Minimum	Average
Trading book	Interest-rate risk	1.0	1.6	0.4	0.8
	Currency risk	0.5	0.5	0.0	0.1
	Equity/index risk	0.5	3.6	0.4	1.1
	Credit-spread risk	3.3	4.0	2.1	3.0
	Commodities risk	0.0	0.1	0.0	0.0
	Overall risk	**3.8**	**4.4**	**2.4**	**3.2**
Throughout the Bank	Interest-rate risk	1.1	2.4	0.6	1.5
	Currency risk	0.5	0.5	0.0	0.1
	Equity/index risk	1.4	3.2	1.0	1.5
	Credit-spread risk	4.9	5.3	4.2	4.7
	Commodities risk	0.0	0.1	0.0	0.0
	Overall risk	**4.5**	**5.3**	**3.9**	**4.6**

Risk relating to interest rates (including general credit-spread risk) and equities still represent the Bank's greatest market risk. The volatility over the course of the year for the value-at-risk declined significantly compared to the previous years due above all to the fact that share-price risk has lost in relative significance for HSBC Trinkaus.

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

The so-called 'stressed value-at-risk' has also been reported since 31 December 2011. The underlying period of particular stress on the markets was identified as March 2008 to February 2009 in 2013 as well. The model used to calculate the stressed value-at-risk is largely the same as that used to determine the normal value-at-risk. However, in order to avoid scaling assumptions the calculation is based directly on a history of overlapping ten-day periods. In keeping with the regulatory provisions, the length of the history was fixed at one year instead of 500 trading days so far. The stressed value-at-risk fluctuated far more strongly than the normal value-at-risk over the course of 2013. This was the result of so-called 'gap risks' which arise in connection with exchange-traded knockout products. The amount of the stressed value-at-risk was as a rule measurably higher than the normal value-at-risk in 2013. However, owing to the weak product demand it reverted to the level of the normal value-at-risk in summer 2013.

In addition to the limitation of the value-at-risk, a number of sensitivity, volume and maturity limits are employed in order to avoid concentration risk and also account for those risks which cannot be entirely incorporated into the model. Value-at-risk approaches are unsuitable for calculating losses likely in extreme market situations or in the case of previously unobserved occurrences. To cater for this, we supplement our full risk identification system with daily stress testing in order to assess the impact of extreme market movements on the value of positions. The stress testing results form part of the daily risk reporting process and provide us with valuable additional information. Separate limits are defined for the losses arising from the stress tests and the scenarios we use are regularly checked and adjusted if required.

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

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

Liquidity risk

(a) Liquidity risk management

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

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

While operating liquidity management is carried out by the Treasury team, the Asset and Liability Management Committee (ALCO) is responsible for the Bank's structural liquidity risk within the scope of limits agreed with HSBC. ALCO's duties include monitoring liquidity and financing ratios, the regular adjustment of the liquidity risk strategy and transfer pricing for liquidity within the bank. The Asset Liability and Capital Management (ALCM) team is responsible for drawing up all guidelines in connection with liquidity risk management as well as for adopting methods from the HSBC Group and their quality assurance. Treasury is responsible for regularly updating the emergency liquidity plan.

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

Our liquidity management is based on two central observation and management ratios. Firstly, we determine the advances/core funding ratio and use it to evaluate the Bank's structural financing position. Secondly, we draw up liquidity forecasts in order to evaluate the Bank's resilience with respect to various stress scenarios.

Our subsidiary in Luxembourg, HSBC Trinkaus & Burkhardt (International) S.A., is included in liquidity risk management on group level according to the procedures and parameters used throughout the Group. In addition, as an individual institution it controls its liquidity independently, thereby fulfilling all the regulatory requirements in Luxembourg.

The advances/core funding ratio represents a central funding ratio. It relates to a time horizon of one year and puts the volume of customer loans granted in relation to the volume of long-term capital market financing raised and to the customer deposits qualified as core funding. Owing to the difference between core funding and non-core funding, the advances/core funding ratio cannot be derived directly from the balance sheet. This ratio stood at 74.3 % at the end of the year (2012: 73.0 %).

	Advances / Core Funding Ratio	
in %	2013	2012
31.12.	74.3	73.0
Minimum	72.5	59.3
Maximum	82.2	76.3
Average	77.0	64.8

(c) Liquidity forecasts and liquidity cushion

The liquidity forecasts are derived from six different stress scenarios of which five are used uniformly in the HSBC Group. The scenarios differ in terms of the various assumptions for outflows of liquidity and changes in the value of securities which can be related to institute-specific or market-wide results. In each scenario we forecast the cumulative change in the cumulative inflows and outflows across several maturity bands. In the institution-specific scenarios, the full deduction of the customer deposits not qualified as core deposits within three months and the increased drawing on uncalled loan commitments of up to 35 % in the same period is assumed. It must be possible for the resulting cash deficits to be balanced out by the liquidation of the liquidity cushion of marketable assets. Different valuation mark-downs are applied depending on the scenario.

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

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

Large parts of the liquidity cushion consist of public-sector bonds, Pfandbriefe and other eligible assets which are not used otherwise as collateral. Securities or cash collateral transferred to third parties for collateral or margin obligations are not included in the liquidity cushion. As at 31 December 2013 we had deposited most of these assets with a collateral value of € 3.97 billion at the Bundesbank (2012: € 5.28 billion) giving us potential access to central bank loans to this extent. With the exception of a test transaction to validate our emergency liquidity plan, we did not participate in any new ECB main refinancing transactions in 2013.

At the end of the year the forecast inflow of funds together with the proceeds from the liquidation of the liquidity cushion in the relevant stress scenario amounted to 107 % of the forecast outflow of funds after three months (2012: 109 %).

	Inflow of funds and proceeds from the liquidation of the liquidity cushion in relation to the outflow of funds			
	After one month		After three months	
in %	2013	2012	2013	2012
31.12.	108	119	105	109
Minimum	106	106	102	101
Maximum	130	129	116	112
Average	116	119	108	106

In order to determine the extent of the losses which could arise from emergency measures to prevent insolvency as well as from increased financing costs, we take possible cash outflows based on the institution-critical stress scenario as a base and look at various alternative courses of action and market situations. The result is included in the Internal Capital Adequacy Assessment (ICAAP) as a share of the liquidity risk. It amounted to € 26.6 million (2012: € 75.8 million) as at 31 December 2013 in the going-concern scenario.

(d) Contingent liabilities from committed credit facilities

The following table shows the five largest undrawn cash credit lines as well as those committed to the largest market sector. They are limited within the scope of liquidity management.

in €m	31.12.2013	31.12.2012
Undrawn committed credit lines		
The five largest	822.2	680.8
To the largest market sector	1,161.6	923.8

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

We issue no funding tools which provide for accelerated repayment depending on the deterioration of credit quality or which can be settled by the delivery of treasury shares instead of in cash. Obligations to provide collateral in cash or in securities can arise unilaterally in connection with stock-exchange transactions which are settled via central counterparties or bilaterally with OTC transactions which are concluded under outline agreements with collateral riders. The individual transactions are usually subject to netting agreements.

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

in €m	31.12.2013						
		Gross outflow (not discounted)					
	Book value	Σ	< 1m	1–3m	3–12m	12m > 4y	> 4y
Financial liabilities within the balance sheet:							
Deposits by banks	1,269.4	1,269.4	1,263.7	0.6	0.1	5.0	0.0
Customer accounts	12,219.1	12,222.4	11,177.8	595.0	170.5	254.3	24.8
Certificated liabilities	10.0	11.5	0.4	0.0	0.0	11.1	0.0
Trading liabilities (excluding derivatives*)	2,167.5	2,492.5	331.2	127.1	454.6	408.4	1,171.2
Derivatives in hedging relationships	46.9	56.2	0.0	0.0	5.1	21.4	29.7
Provisions**	142.7	155.9	117.4	0.0	0.0	0.0	38.5
Other liabilities	229.3	230.3	57.3	7.3	44.6	107.6	13.5
Subordinated capital	345.7	537.0	0.0	20.3	28.5	73.4	414.8
Sub-total	16,430.6	16,975.2	12,947.8	750.3	703.4	881.2	1,692.5
Financial liabilities outside the balance sheet:							
Financial guarantees	1,084.8	1,084.8	1,084.8	0.0	0.0	0.0	0.0
Loan commitments	6,109.4	6,109.4	6,109.4	0.0	0.0	0.0	0.0
Total	**23,624.8**	**24,169.4**	**20,142.0**	**750.3**	**703.4**	**881.2**	**1,692.5**

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

in €m		31.12.2012***					
		Gross outflow (not discounted)					
	Book value	Σ	< 1m	1–3m	3–12m	12m > 4y	> 4y
Financial liabilities within the balance sheet:							
Deposits by banks	1,219.5	1,219.6	1,205.0	0.7	8.7	5.2	0.0
Customer accounts	11,880.4	11,888.2	10,480.9	764.6	347.6	253.0	42.1
Certificated liabilities	10.0	12.0	0.4	0.0	0.0	1.2	10.4
Trading liabilities (excluding derivatives*)	2,236.7	2,535.2	362.1	141.7	568.7	427.5	1,035.2
Derivatives in hedging relationships	70.4	85.0	0.0	0.0	0.0	41.1	43.9
Provisions**	136.6	151.3	108.5	0.0	0.0	0.0	42.8
Other liabilities	275.0	276.8	57.3	13.6	146.1	52.6	7.2
Subordinated capital	353.4	569.6	0.0	0.0	7.9	94.4	467.3
Sub-total	16,182.0	16,737.7	12,214.2	920.6	1,079.0	875.0	1,648.9
Financial liabilities outside the balance sheet:							
Financial guarantees	1,805.6	1,805.6	1,805.6	0.0	0.0	0.0	0.0
Loan commitments	5,253.6	5,253.6	5,253.6	0.0	0.0	0.0	0.0
Total	**23,241.2**	**23,796.9**	**19,273.4**	**920.6**	**1,079.0**	**875.0**	**1,648.9**

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

** Net obligations pursuant to IAS 19 are recognised with their average term.

*** Prior year's figures adjusted. The adjustments are explained in Note 18.

Analysis of the residual terms shows that most of the financial instruments are due by contract within the first three months of the balance sheet date. It is to be taken into consideration that the actual payments from on- and off-balance sheet obligations are regularly made later than the earliest possible point in time stipulated by contract.

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

The book values of the main assets and liabilities by residual term which will lead to future cash outflows or inflows are set against each other by residual maturity in the table below:

in €m		< 1m	1–3m	3–12m	12m–4y	> 4y	No fixed term	Total
Deposits by banks	31.12.2013	1,236.2	274.9	130.2	2.5	0.0	0.0	1,643.8
	31.12.2012	1,297.2	139.2	112.4	2.4	0.0	0.0	1,551.2
Loans and advances to customers	31.12.2013	2,569.5	1,291.9	648.7	274.2	73.4	0.0	4,857.6
	31.12.2012	2,745.0	1,132.0	405.7	260.9	10.7	0.0	4,554.3
Trading assets*/**	31.12.2013	6,747.6	0.0	0.0	0.0	0.0	0.0	6,747.6
	31.12.2012	8,261.5	0.0	0.0	0.0	0.0	0.0	8,261.5
Financial assets	31.12.2013	255.1	51.3	393.0	2,779.6	1,423.8	222.0	5,124.8
	31.12.2012	81.8	31.3	402.9	2,821.9	1,510.6	219.8	5,068.3
Other assets	31.12.2013	3.1	0.0	9.2	0.0	0.0	152.2	164.5
	31.12.2012	1.1	0.0	10.9	0.0	0.0	200.1	212.1
Total* **	**31.12.2013**	**10,937.7**	**1,618.1**	**1,181.1**	**3,056.3**	**1,497.2**	**248.0**	**18,538.3**
	31.12.2012	**12,386.6**	**1,302.5**	**931.9**	**3,085.2**	**1,521.3**	**419.9**	**19,647.4**

in €m		< 1m	1–3m	3–12m	12m–4y	> 4y	No fixed term	Total
Deposits by banks	31.12.2013	1,263.7	0.6	0.1	5.0	0.0	0.0	1,269.4
	31.12.2012	1,205.0	0.7	8.7	5.1	0.0	0.0	1,219.5
Customer accounts	31.12.2013	11,177.6	594.7	170.2	252.3	24.3	0.0	12,219.1
	31.12.2012	10,480.5	763.8	346.6	249.0	40.5	0.0	11,880.4
Certificated liabilities	31.12.2013	0.0	0.0	0.0	10.0	0.0	0.0	10.0
	31.12.2012	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Trading liabilities*/**	31.12.2013	4,053.0	0.0	0.0	0.0	0.0	0.0	4,053.0
	31.12.2012	4,651.5	0.0	0.0	0.0	0.0	0.0	4,651.5
Provisions***	31.12.2013	117.4	0.0	0.0	0.0	25.3	0.0	142.7
	31.12.2012	108.6	0.0	0.0	0.0	28.0	0.0	136.6
Other liabilities	31.12.2013	57.3	7.3	44.5	106.8	13.4	0.0	229.3
	31.12.2012	57.3	13.6	145.6	51.7	6.7	0.1	275.0
Subordinated capital	31.12.2013	0.0	20.0	27.5	61.2	237.0	0.0	345.7
	31.12.2012	0.0	0.0	7.7	78.7	267.0	0.0	353.4
Total****	**31.12.2013**	**16,669.0**	**622.6**	**242.3**	**435.3**	**300.0**	**0.0**	**18,269.2**
	31.12.2012	**16,502.9**	**778.1**	**508.6**	**384.5**	**352.2**	**0.1**	**18,526.4**

* Trading assets and liabilities are reported in accordance with the intended holding period in the shortest maturity band, irrespective of the maturity. A breakdown by residual term for derivatives pursuant to their contractual maturities can be found in Note 59.

** Excluding derivatives which are part of a hedging relationship

*** Net obligations pursuant to IAS 19 are recognised with their average term.

**** Prior year's figures adjusted. The adjustments are explained in Note 18.

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

	Liquidity ratio in accordance with the Liquidity Ordinance (LiqV)	
in %	2013	2012
31.12.	2.39	2.18
Minimum	1.91	1.69
Maximum	2.51	2.23
Average	2.17	1.96
Reference value in accordance with Section 2 LiqV	1.00	1.00

(f) Future regulatory requirements

The Capital Requirements Regulation (CRR) also immediately came into force in Germany as European law with effect from 1 January 2014. The CRR contains large parts of the changes to the regulatory requirements known as Basel III. The rules on liquidity are a key feature of the CRR. Two new ratios for monitoring the liquidity situation are defined:

- Liquidity coverage ratio (LCR)
- Net stable funding ratio (NSFR)

The LCR is to be calculated for the first time as at 31 March 2014. While no regulatory minimum yet applies for the LCR during 2014, the minimum requirement (limit) given will rise successively from January 2015 onwards, from 60 % to reach 100 % by January 2019. According to our latest test calculations the LCR will be significantly higher for the Bank from the beginning on.

The NSFR is to be calculated for the first time as at 31 March 2014. The minimum requirement for the NSFR has not yet been stipulated by the supervisory authorities.

Overall picture of the risk situation

The overall picture of the Bank's risk situation is balanced. Based on the assessments in February 2014 the following statements can be made which, however, may change significantly over the further course of the financial year owing to changes in the Bank's environment or business activities.

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

We assume a very low probability that the liquidity risk will be incurred. Should our current liquidity position deteriorate contrary to expectation, the adequate supply of liquidity is guaranteed in the euro money market by the ECB. In the event of tensions on the euro money market, the repercussions will be cushioned by the Bank's high liquidity reserve.

Owing to the low limit allocation and utilisation, established procedures and experienced management on the front and back office side, we are assuming a medium probability of occurrence with respect to the market risk. Thanks to our market price risk management system, we expect to be able to react to market distortions in good time and that major losses are therefore unlikely.

We expect a medium probability of occurrence for counterparty credit risk in view of the stable macroeconomic environment in the national economies which are significant for our business. However, as we are expecting a growing default risk as a result of our growth strategy, we are assuming an increased counterparty credit risk overall compared to the previous year. Owing to the risk concentration in the portfolio, an individual default can already lead to a notable loan loss allowance.

Both the implementation of the regulatory requirements and the projects already underway and still outstanding in conjunction with our growth initiative and the integration of new employees are the reasons why we assess the probability of occurrence of operational risk as higher compared to previous years. Furthermore, the withdrawal from Luxembourg is associated with an increased operational risk which we are monitoring more carefully within the scope of project management in order to avoid incidents in as far as possible.

Despite our consistent client-oriented strategy together with our solid capitalisation, we see a slightly increased strategic risk on account of the continuing low interest-rate policy on the euro money market as well as external regulatory or political influences which we cannot govern.

We assess the Bank's overall risk profile as average at present. It is not possible to make a comprehensive assessment of the concrete impact that all general parameters and business activity will have on the 2014 business result and the medium- to long-term trend in earnings. A permanent risk-management process is therefore of major importance for the Bank. It requires a rapid response to changes in the general setting or an unplanned business development. We believe we are well prepared for opportunities and risks in the new financial year thanks to our functional management systems and open culture of communication and corporate responsibility.

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

General

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

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

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

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

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

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

Organisational structure

The organisational structure of the Bank and the responsibilities within the Management Board are presented in the chapter entitled 'The Business Divisions'. Accounting at the Bank is primarily the responsibility of the Accounting and Controlling teams as part of the finance function.

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

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

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

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

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

The Supervisory Board has formed an Audit Committee from its members. According to the rules of procedure, its responsibilities include examining the independence of the proposed external auditors, mandating the external auditors to audit the annual financial statements and consolidated accounts, determining the focus of the audit and arranging the fee contract with the external auditors, taking measures to monitor the independence of the external auditors, preparing for the examination of the annual financial statements and consolidated accounts by the Supervisory Board as well as key accounting and basic risk management issues. Further responsibilities are laid down in the Terms of Reference and comprise in particular the discussion of the findings of the internal audit department, of compliance-relevant matters and other issues relevant for the ICS. Wolfgang Haupt, Düsseldorf, was Chairman of the Audit Committee until 31 December 2013. Further members at this time were Deniz Erkman, Krefeld, Dr. Hans Michael Gaul, Düsseldorf, and Simon Leathes, London.

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

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

IT systems

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

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

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

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

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

General structure of the ICS

The main principles for the structure of the ICS in the accounting process are:

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

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

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

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

Specific components of the ICS

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

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

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

(c) Reconciliation of the back-office systems
All derivatives and securities transactions as well as all money market transactions are reconciled between the front- and back-office systems by a separate department of HSBC Transaction Services GmbH on a daily basis. Any differences are clarified the next day.

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

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

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

(g) Account statements and confirmations of open transactions
HSBC Transaction Services GmbH sends out bi-annual account statements for all customer accounts. For open transactions, above all OTC derivatives (including foreign-exchange transactions), the internal audit department separately reconciles all outstanding transactions with a random sample of counterparties on an annual basis.

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

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

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

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

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

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

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

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

Information Relevant for Acquisitions

Shareholders and shares

Capital

At 31 December 2013 the Bank's issued share capital was unchanged at € 75.4 million divided into 28.1 million no-par-value shares. 55.2 % of the share capital is listed on the Düsseldorf and Stuttgart stock exchanges.

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

HSBC Holdings plc, London, indirectly held 80.6 % of the share capital on the balance sheet date. Landesbank Baden-Württemberg, Stuttgart, still holds a direct share of 18.7 %.

Share price and market value

During 2013 our share price declined by 2.7 % to € 84.80. The lowest fixing price of the year was € 76.00 and the highest € 88.00. From the initial issue price of DM 190 (€ 97.20) per DM 50 nominal share on 25 October 1985 the exchange price and market capitalisation have developed as follows:

Date	Number of shares	Share price* in €	Market capitalisation in €m
31.12.1985	18,000,000	17.64	317.52
31.12.1990	22,000,000	19.79	435.38
31.12.1995	23,500,000	30.58	718.63
31.12.2000	26,100,000	110.00	2,871.00
31.12.2005	26,100,000	87.50	2,283.75
31.12.2010	28,107,693	89.00	2,501.58
31.12.2011	28,107,693	90.20	2,535.31
31.12.2012	28,107,693	87.19	2,450.71
31.12.2013	28,107,693	84.80	2,383.53

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

Dividends

For the 2013 financial year we propose paying a dividend of € 2.50 per share (2012: € 2.50 per share). With a dividend total of € 70.3 million (2012: € 70.3 million) we wish to ensure that our shareholders participate suitably in the profits we generated in 2013.

Constitution of the company

In accordance with the Articles of Association, the Management Board of the Bank must consist of at least two members. However, the Supervisory Board may appoint additional members of the Management Board in excess of this number. Dr. Olaf Huth left the Management Board at the end of the Annual General Meeting on 4 June 2013 and Manfred Kraus left the Management Board at the close of 2 July 2013. The Management Board therefore consisted of three people on 31 December 2013.

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

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

The Annual General Meeting can decide upon capital procurement measures only in accordance with the statutory provision in Section 119 German Stock Corporation Act (AktG). Please see Note 40 in respect of the Management Board's current authorisation by the Annual General Meeting to issue shares.

In accordance with the resolution passed by the Annual General Meeting on 8 June 2010, the Management Board has the right to buy and sell its own shares for the purpose of securities trading at prices which exceed or fall below the average closing price for the shares on the Düsseldorf stock exchange (or, if this cannot be determined, on the Baden-Württemberg securities exchange, Stuttgart) on the ten preceding trading sessions by no more than 10 %. The number of shares bought for this purpose may not amount to more than 5 % of the company's share capital at the end of each day. This authorisation is valid until 7 June 2015.

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

Sustainable Corporate Management

HSBC Trinkaus is committed to sustainable company management. It is at the foundation of our business activity and has always been a substantial part of our philosophy. We meet this commitment not only in our core business. For us the principle of responsibility also applies vis-à-vis society and the environment.

Our responsibility

We pursue an integrated sustainability strategy according to which we equate corporate responsibility with economic, ecological and social responsibility. We are convinced that corporate responsibility is a prerequisite for long-term economic success. Since 2008 our entire sustainability activities have been coordinated centrally by the Corporate Sustainability (CS) team which reports directly to the Chairman of the Management Board, Andreas Schmitz.

The financial and economic crisis has again underlined the major importance of corporate responsibility in the core business. Our business model, which is geared towards sustainability, has proven itself in this period. It is characterised by its clear orientation towards the target groups of high-net-worth private clients, corporate clients and institutional clients, supplemented by risk-aware trading. Our success puts us in the position to meet our stakeholders' requirements: as a reliable business partner for our clients, as an attractive employer providing training for our employees, as a solid and profitable investment for our shareholders and as a significant and reliable taxpayer of the City of Düsseldorf, with which we have been linked since our foundation in 1785.

Sustainable finance

HSBC Trinkaus offers comprehensive equity research on listed companies from the solar, wind, waste-management and water industries segment (SRI/Renewables). Since 2006 we have been organising the annual 'Responsible Growth – Investments for the Future' conference in Frankfurt am Main. We also organise Sustainability Roadshows, which enable SRI companies to get into contact with international investors.

Furthermore, we also bring to the market sustainable investment certificates geared towards private and institutional clients.

HSBC Global Asset Management (Deutschland) GmbH has been cooperating since 2003 with RobecoSAM AG in Zurich, one of the leading providers of sustainable investments worldwide. It provides our clients with simple and at the same time professional access to sustainable investments.

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

Corporate Sustainability at HSBC Trinkaus & Burkhardt AG

HSBC

Economic responsibility
CS in the core business

Lending
- Sustainability Risk Rating as an obligatory component of the HSBC lending process

Sustainable finance
- Sustainable investment products for private and institutional investors
- Comprehensive equity research in the area of SRI/Renewables

Water Programme | HSBC

Ecological responsibility
Dealing with resources

Environment footprint management
- Environmental stipulations in purchasing guidelines
- Employee sensitisation

Involvement in HSBC Water Programme project

Involvement in Climate Partnership project (until 2011)

Die Arche · HSBC Trinkaus Schulprojekt

Social responsibility
Social commitment

Social commitment
- Art and culture
- Youth and education

Additional benefits for employees
- Company pension schemes
- Compatibility of family and working life
- Supporting employee commitment

Sustainability with respect to lending
We basically examine all loan commitments and applications with respect to sustainability risk. Since 2008 we have been applying a standardised worldwide Sustainability Risk Rating which provides for regulations for certain industries such as mining, chemicals, energy, defence, forestry and water.

Furthermore, we have undertaken to observe the Equator Principles (EP), which serve as international standards for the management of social and ecological risk in project financing. The 15 criteria drawn up by the World Bank subsidiary International Finance Corporation (IFC) for project financing of USD 10 million upwards correspond essentially to the World Bank's ecological and social standards. We offer our employees intensive and systematic training and advanced training relating to risk assessment. Special risk managers monitor the observance of these processes.

Social responsibility
Alongside economic and environmental responsibility, social responsibility is the third pillar of our integrated corporate sustainability strategy. HSBC Trinkaus offers its staff numerous voluntary social benefits. In order to support the reconciliation of work and family obligations, we offer flexible working models and the family service which helps, for example, in finding external care for children or elderly relatives. Our company kindergarten 'TuB-Zwerge' has gone down so well that we also opened 'Kleine Elefanten' in 2009.

Educating young people is a key feature of our social responsibility. The HSBC Trinkaus school project helps to provide knowledge of financial matters, which is indispensable in today's society: HSBC Trinkaus employees are regularly available as 'Experts in the classroom' in general-education schools in Düsseldorf and the cities in which our branches are located.

HSBC Trinkaus is also involved as one of the main sponsors in the Christian youth welfare centre 'Die Arche e.V.' in the Düsseldorf suburb of Wersten. 'Die Arche' in Düsseldorf opened its doors at the beginning of 2010 and is supported by our employees who help with the organisation of parties and excursions.

Ecological responsibility
In order to keep the impact of our business operations on the environment as low as possible, HSBC Trinkaus relies on processes that reduce environmental pollution. Integrated into the HSBC Group's environmental-management programme, we are constantly reducing our emissions in accordance with the targets. We understand our environmental-protection measures as an example for our employees, clients and other stakeholders. We pursue reduction targets in respect of waste management, energy consumption, CO_2 emissions and facility management. In addition, there are special provisions in the interests of environmentally friendly mobility with preference given to rail travel for business trips in order to reduce CO_2 emissions and fine dust. Company season tickets for employees also support environmentally friendly mobility.

HSBC's Sustainability Report, which appears annually, offers a comprehensive overview of the Group's sustainability management and is geared towards the framework of the Global Reporting Initiative (GRI). Furthermore, HSBC Trinkaus has made a voluntary commitment to the following initiatives:

- Carbon Disclosure Project
- Diversity Charter
- Code of Responsible Conduct for Business and The Ethical Foundations of Management Remuneration in the Banking Sector
- UN Environmental Programme Finance Initiative
- UN Global Compact
- UN Principles for Sustainable Insurance
- UN Principles for Responsible Investment

Staff

Number of employees and persons receiving pensions

We had a total of 2,527 employees at the end of 2013, almost unchanged compared to 2,528 at the end of the previous year. At the end of 2013 we were also paying retirement, widow's and orphan's pensions to 577 recipients, compared to 584 at the end of 2012.

Training activities

A total of 30 highly-motivated apprentices are currently working at the Bank towards professional qualifications in banking, IT and office communication. Four of the banking apprentices are attending a parallel part-time Bachelor of Arts study course in 'Business Administration' at the Hochschule für Oekonomie & Management. In addition, five apprentices are working towards investment fund specialist qualifications at Internationale Kapitalanlagegesellschaft mbH, and a further five towards professional office communication qualifications at HSBC Transaction Services GmbH.

We are proud to report that a total of 25 trainees in the HSBC Trinkaus Group successfully completed their training in 2013 as well, four with the grade of 'very good'. We as an employer received an award from the Düsseldorf Chamber of Commerce and Industry for the seventh year in succession for special services in our professional training.

Advanced training

We see the professional and social skills as well as the special commitment of our employees as a decisive competitive advantage. Thanks to targeted personnel development we are in the position to constantly offer our clients major expertise and high quality with respect to our advisory service. The individual advanced training measures we offer our employees are tailored to meet their respective concrete requirements and are developed in advance based on detailed analysis. We work together with selected trainers who are familiar with the Bank's requirements and whose excellent qualifications guarantee the successful implementation as well as the needs-oriented preparation and fine-tuning of the measures. We help our employees to advance by providing individual product and subject-specific training as well as various measures for the further development of interdisciplinary expertise. We pay particular attention to training, promoting and propagating our senior management members through individual development programmes and coaching in their special management functions.

We also still give high priority within the scope of our personnel development to promoting Bachelor and Master occupational study courses as well as selected specialised training courses. The Frankfurt School of Finance & Management, Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA), the CFA-Institute as well as specialist providers, independent trainers and universities have been our competent partners for these training measures for many years. A broad range of PC and IT seminars as well as foreign language courses (also in preparation for secondments abroad) rounds off our advanced training activities.

Compensation Report

Basic features of the compensation system for the executive and supervisory bodies

As a credit institution, the provisions of the Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) apply above all for HSBC Trinkaus alongside the provisions of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code. After detailed risk analysis, the Management Board came to the conclusion that the Bank was not a significant institution in 2013 within the meaning of section 1 (2) of this ordinance in the version of 6 October 2012 authoritative for the 2013 financial year.

The compensation of the members of the Management Board is laid down in contracts of employment which the Bank, represented by the Supervisory Board's Personnel Sub-committee, concludes individually with the various Management Board members.

The compensation of members of the Management Board comprises a fixed salary element plus a variable compensation component. Each member of the Management Board is also given an individual pension commitment. The extent of the annual variable compensation is determined on a discretionary basis by the Supervisory Board and can be paid in cash, as an allocation of shares in HSBC Holdings plc or a combination of both.

The share of the cash component, the minimum waiting period until the allocation of the long-term share of the compensation as well as its distribution beyond the waiting period is geared towards the HSBC Group's provisions applicable throughout the Group and can vary from year to year. The details of this are published in the Annual Report for the respective year. For the 2013 financial year half of the entire variable remuneration for all Management Board members consists of a cash payment and half of an allocation of shares in HSBC Holdings plc. 40 % will be transferred in 2014 and 60 %, a third in each case, in the next three financial years, in other words from 2015 to 2017. A further holding period of six months from the date of transfer is prescribed for the shares in HSBC Holdings plc.

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

The compensation for members of the Supervisory Board is governed in the Articles of Association. Each Supervisory Board member is thereby entitled to receive fixed compensation of € 25,000 plus variable compensation of € 100 for every 1 cent of dividend distributed per share. The Chairman receives two-and-a-half times and the Deputy Chairman double this sum. The Chairman of a Supervisory Board committee receives double and members of a committee one-and-a-half times the aforementioned compensation of a Supervisory Board member, provided the respective committee has met at least once in the financial year. If a member of the Supervisory Board holds several offices, he/she is only compensated for the office with the highest compensation. Should a member of the Supervisory Board or a committee not be in office for the full financial year, the compensation is reduced proportionately to the period.

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

The company's Annual General Meeting again decided with the required three-quarters majority on 5 June 2012 that the individual emoluments of the members of the Management Board are not to be published (Section 314 para. 1 no. 6a sentence 5 to 8 German Commercial Code (HGB)).

At € 2,244.7 thousand the fixed remuneration for all members of the Management Board for 2013 was lower than in the previous year (2012: € 2,772.8 thousand). The variable share of the remuneration amounted to € 7,616.8 thousand (2012: € 10,032.8 thousand). The variable share of the Management Board remuneration for the 2013 financial year includes a long-term remuneration component of € 4,390.1 thousand (2012: € 6,019.7 thousand).

Other compensation in the amount of € 112.7 thousand (2012: € 138.2 thousand) comprises mainly remuneration paid for the use of a company car, insurance premiums plus other valuable benefits that must be taxed individually. It is not performance-based.

Provisions totalling € 13.3 million (2012: € 18.2 million) have been created to cover pension obligations to the members of the Management Board and their surviving dependents according to IFRS.

Subject to the approval of the proposed appropriation of profit by the Annual General Meeting on 3 June 2014, the compensation of the Supervisory Board will be € 1,312,830.87 (2012: € 1,309,000.00). Furthermore, fees were paid to two (2012: two) members of the Supervisory Board for consultancy services provided over the course of the financial year. These totalled € 177,012.50 (2012: € 197,837.50). No separate pension obligations exist for Supervisory Board members. The general rules for employees and former Managing Partners apply for the pension obligations to the employees' representatives as well as for the former Managing Partners of the Bank.

Pension payments to former Managing Partners of HSBC Trinkaus & Burkhardt KGaA and Trinkaus & Burkhardt KG, the legal predecessors of HSBC Trinkaus & Burkhardt AG, and their surviving dependents and former Management Board members of HSBC Trinkaus & Burkhardt AG amounted to € 7.2 million (2012: € 4.1 million). Provisions totalling € 39.9 million (2012: € 35.8 million) have been created to cover pension obligations according to IFRS for these individuals.

No Management Board member acquired shares of HSBC Trinkaus & Burkhardt AG over the course of the financial year. No subscription rights or other share option schemes involving the Bank's own shares were offered. The employees' representatives in the Supervisory Board basically have the right to participate in the share option scheme for employees described under Note 69.

As in the previous year, there were no loans and advances to Members of the Management Board. As at the balance sheet date one member of the Supervisory Board was utilising current account loans totalling € 3,000 (2012: € 3,000). The loans bear interest of 5.3 %. Contingent liabilities with respect to third parties in favour of members of executive and supervisory bodies existed only within the scope of the form presented in Note 65.

Employee compensation

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

The employee compensation system is regulated by the collective wage agreements for the private banking industry and the public-sector banks for tariff employees and stipulated by the Management Board for non-tariff employees. The corresponding rules apply uniformly for all business divisions. In addition to a fixed salary, which is reviewed annually, the non-tariff employees receive variable compensation which is stipulated by the Management Board on a discretionary basis for each individual employee based on proposals from the divisional heads. The decision is based on financial and non-financial parameters, such as the sustainability of the individual performance, conformity with compliance provisions as well as the observance of HSBC Trinkaus' values. Observing the provisions of the Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) and in keeping with the principles of the HSBC Group regarding the payment of variable compensation, it is paid entirely in cash or partly in cash and partly as an allocation of shares in HSBC holdings plc. According to the principles of the HSBC Group, it is envisaged with respect to the variable compensation for the 2013 financial year that it will be paid entirely in cash in March 2014 up to an amount of € 56,700 (US$ 75,000). Between 10 % and 50 % of the variable compensation exceeding this amount will be paid in HSBC shares depending on the amount. The cash component will be paid in March 2014 and a third of the HSBC shares will be transferred in each of the following three years, 2015, 2016 and 2017. For individual employees half of the entire variable remuneration consists of a cash payment and half of an allocation of shares in HSBC Holdings plc. 40 % of these share will be transferred in the 2014 financial year and 60 %, of which a third in each case, in the next three financial years, in other words from 2015 to 2017. A further holding period of six months from the date of transfer is stipulated for the shares of HSBC Holdings plc. The overall amount of all fixed compensation paid in the HSBC Trinkaus Group in 2013, including the fixed compensation paid for the Management Board, came to € 166.5 million. 1,438 persons will receive variable compensation for the 2013 financial year totalling € 63.5 million in 2014. This figure includes the variable compensation for the Management Board. The overall amount is split between the individual divisions as follows:

	Total fixed compensation	Total variable compensation	Number of employees
Global Banking & Markets and Commercial Banking	86.5	46.1	766
Private Banking and Asset Management	22.1	7.5	175
Functions and HTS	57.9	9.9	497

Thanks

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

Corporate Governance Statement

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the Commission of the German Corporate Governance Code required under section 161 of the German Stock Corporation Act (AktG) and made this permanently available to the public on the HSBC Trinkaus & Burkhardt AG homepage (Internet link: http://www.hsbctrinkaus.de/global/display/wirueberuns/berichteundinvestorrelations/corporate-governance).

Consolidated Financial Statements

Consolidated Balance Sheet HSBC Trinkaus & Burkhardt

Assets in € m	(Note)	31.12.2013	31.12.2012*	01.01.2012*	Change**	
					in €m	in %
Cash reserve	(20)	1,133.7	265.0	672.2	868.7	> 100.0
Loans and advances to banks	(5, 21)	1,643.8	1,551.2	2,502.7	92.6	6.0
Loans and advances to customers	(5, 22)	4,857.6	4,554.3	3,835.7	303.3	6.7
Net loan impairment provision	(7, 23)	–33.4	–25.2	–27.1	–8.2	32.5
Trading assets	(5, 24)	6,753.6	8,261.5	9,088.7	–1,507.9	–18.3
Financial assets	(5, 25)	5,124.8	5,068.3	4,164.7	56.5	1.1
Share of profit in associates	(9, 26)	54.5	55.1	65.2	–0.6	–1.1
Property, plant and equipment	(10, 27)	83.8	80.6	79.3	3.2	4.0
Intangible assets	(11, 27)	15.9	23.7	31.3	–7.8	–32.9
Taxation recoverable	(15, 28)	10.9	1.2	9.4	9.7	> 100.0
of which current		5.2	1.2	8.6	4.0	> 100.0
of which deferred		5.7	0.0	0.8	5.7	–
Other assets	(29)	164.5	212.1	213.1	–47.6	–22.4
Total assets		19,809.7	20,047.8	20,635.2	–238.1	–1.2

Liabilities in € m	(Note)	31.12.2013	31.12.2012*	01.01.2012*	Change**	
					in €m	in %
Deposits by banks	(5, 32)	1,269.4	1,219.5	832.8	49.9	4.1
Customer accounts	(5, 33)	12,219.1	11,880.4	12,446.6	338.7	2.9
Certificated liabilities	(34)	10.0	10.0	10.0	0.0	0.0
Trading liabilities	(5, 35)	4,099.9	4,721.9	5,309.5	–622.0	–13.2
Provisions	(7, 14, 23, 36)	142.7	136.6	103.0	6.1	4.5
Taxation	(15, 37)	39.9	65.8	48.4	–25.9	–39.4
of which current		39.9	53.4	48.3	–13.5	–25.3
of which deferred		0.0	12.4	0.1	–12.4	> 100.0
Other liabilities	(38)	229.3	275.0	235.1	–45.7	–16.6
Subordinated capital	(39)	345.7	353.4	353.4	–7.7	–2.2
Shareholders' equity	(40)	1,453.7	1,385.2	1,296.4	68.5	4.9
Subscribed capital		75.4	75.4	75.4	0.0	0.0
Capital reserve		365.8	354.3	363.2	11.5	3.2
Retained earnings		781.9	726.0	666.6	55.9	7.7
Valuation reserve for financial instruments		132.6	160.6	88.5	–28.0	–17.5
Valuation reserve for the remeasurement of the net pension obligation		–58.6	–60.3	–30.4	1.7	–2.8
Valuation reserve from currency conversion		1.3	–2.8	–2.8	4.1	–
Consolidated profit available for distribution		155.3	132.0	135.9	23.3	17.7
Total equity and liabilities		19,809.7	20,047.8	20,635.2	–238.1	–1.2

* Prior year's figures adjusted. The adjustments are explained in Note 18.
** Change from 31 December 2012 to 31 December 2013

Consolidated Statement of Comprehensive Income HSBC Trinkaus & Burkhardt

Consolidated Income Statement

Income statement in €m	(Note)	2013	2012*	Change	
				in €m	in %
Interest income		236.1	253.7	–17.6	–6.9
Interest expense		70.3	78.0	–7.7	–9.9
Net interest income	(17, 42)	165.8	175.7	–9.9	–5.6
Net loan impairment and other credit risk provisions	(7, 43)	10.9	0.9	10.0	> 100.0
Share of profit in associates	(44)	0.3	–8.1	8.4	–
Fee income		765.7	712.1	53.6	7.5
Fee expenses		364.6	328.4	36.2	11.0
Net fee income	(17, 45)	401.1	383.7	17.4	4.5
Net trading income	(17, 46)	95.7	161.8	–66.1	–40.9
Administrative expenses	(47)	486.2	495.0	–8.8	–1.8
Income from financial assets	(17, 48)	16.3	9.1	7.2	79.1
Net other income	(17, 49)	37.0	–8.4	45.4	–
Pre-tax profit		**219.1**	**217.9**	**1.2**	**0.6**
Tax expenses	(15, 50)	63.8	85.9	–22.1	–25.7
Net profit		**155.3**	**132.0**	**23.3**	**17.7**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

Reconciliation from net income to comprehensive income

in €m	2013	2012*
Net profit	155.3	132.0
Gains/losses after tax reclassified in the income statement	–23.9	72.1
of which from financial instruments	–28.0	72.1
of which from currency conversion	4.1	0.0
Gains/losses after tax not reclassified in the income statement	1.7	–29.9
of which from the remeasurement or the net pension obligations	1.7	–29.9
Comprehensive income	**133.1**	**174.2**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

The development of unrealised gains/losses from financial instruments is explained in Note 40.

Earnings per share

	2013	2012*
Net profit in € m	155.3	132.0
Average number of shares in circulation in millions	28.1	28.1
Earnings per share in €	**5.53**	**4.70**
Undiluted earnings per share in €	**5.53**	**4.70**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

No subscription rights were outstanding at the end of the 2013 financial year – as at the end of the previous year. There was therefore no calculable dilution effect.

The Management Board proposes to the Annual General Meeting the distribution of a dividend of € 2.50 per share (2012: € 2.50 per share).

Consolidated Statement of Changes in Capital HSBC Trinkaus & Burkhardt

in €m	Share capital	Capital reserve	Retained earnings	Valuation reserve for financial instruments	Valuation reserve for the remeasurement of the net pension obligation	Valuation reserve from currency conversion	Consolidated profit available for distribution	Shareholders' equity	Minority interests	Total including minority interests
At 31.12.2011	**75.4**	**363.2**	**673.0**	**88.5**	**−38.5**	**−2.8**	**137.3**	**1,296.1**	**0.1**	**1,296.2**
Retrospective Adjustment*	0.0	0.0	−6.4	0.0	8.1	0.0	−1.4	0.3	0.0	0.3
At 01.01.2012*	75.4	363.2	666.6	88.5	−30.4	−2.8	135.9	1,296.4	0.1	1,296.5
Dividend distribution							−70.3	−70.3		−70.3
Retention from 2011 profit available for distribution			65.6				−65.6	0.0		0.0
Addition from net profit for the year							132.0	132.0		132.0
Share-based payments		−8.9	−6.2					−15.1		−15.1
Other changes				72.1	−29.9			42.2		42.2
At 31.12.2012*	**75.4**	**354.3**	**726.0**	**160.6**	**−60.3**	**−2.8**	**132.0**	**1,385.2**	**0.1**	**1,385.3**
Dividend distribution							−70.3	−70.3		−70.3
Retention from 2012 profit available for distribution			61.7				−61.7	0.0		0.0
Addition from net profit for the year							155.3	155.3		155.3
Share-based payments		11.5	−5.8					5.7		5.7
Other changes				−28.0	1.7	4.1		−22.2	−0.1	−22.3
At 31.12.2013	**75.4**	**365.8**	**781.9**	**132.6**	**−58.6**	**1.3**	**155.3**	**1,453.7**	**0.0**	**1,453.7**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

Consolidated Cash Flow Statement HSBC Trinkaus & Burkhardt

in €m	2013	2012*
Net profit	155.3	132.0
Non-cash items in net profit, and adjustments to reconcile net profit with net cash from operating activities:		
Write-downs, depreciations, write-backs and changes to provisions	64.6	64.6
Net profit from the sale of investments and property, plant and equipment	–10.5	–5.5
Other adjustments (net)	–92.3	–198.4
Sub-total	117.1	–7.3
Changes to assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to banks	–92.6	951.4
Loans and advances to customers	–303.2	–718.7
Securities held for trading	885.7	239.8
Other assets	–66.6	–787.7
Liabilities	388.6	–179.5
Other Liabilities	–56.5	72.1
Total adjustments	755.4	–422.6
Interest receipts	233.5	251.7
Dividend receipts	3.5	2.4
Interest payments	–70.3	–78.0
Income taxes paid	–85.2	–69.0
Cash flow from operating activities	**954.0**	**–322.8**
Proceeds from the sale of		
Financial investments	7.4	0.0
Property, plant and equipment	1.0	1.3
Payments for the acquisition of		
Financial investments	–0.4	–0.4
Property, plant and equipment	–15.4	–15.0
Cash flow from investing activities	**–7.4**	**–14.1**
Dividends paid to HSBC Trinkaus shareholders	–70.3	–70.3
Dividends paid to minority shareholders	0.0	0.0
Adjustments to subordinated capital	–7.6	0.0
Net cash provided by the capital increase	0.0	0.0
Cash flow from financing activities	**–77.9**	**–70.3**

Cash and cash equivalents at end of prior period	**265.0**	**672.2**
Cash flow from operating activities	954.0	–322.8
Cash flow from investing activities	–7.4	–14.1
Cash flow from financing activities	–77.9	–70.3
Cash and cash equivalents at end of period	**1,133.7**	**265.0**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

Notes to the Consolidated Financial Statements

Fundamental accounting policies

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

The consolidated financial statements of HSBC Trinkaus & Burkhardt AG, Düsseldorf, for the 2013 financial year have been prepared in accordance with International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU). Additional provisions pursuant to section 315a (1) of the German Commercial Code (HGB) have also been taken into consideration. The Group Management Report that must also be prepared in accordance with section 315a HGB in conjunction with section 315 HGB also includes the report on the opportunities and risks associated with future development (Risk Report). The information contained in the Risk Report complements the details given about the nature and extent of risks arising from financial instruments in the Notes.

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

The presentation currency is euro. For greater clarity, we basically report all amounts in € million. The figures have been rounded commercially, which may result in marginal deviations in the consolidated financial statements to hand within the scope of generating figures and calculating percentages.

The preparation of IFRS financial statements requires the management to provide assessments, assumptions and estimates. This is necessary with regard to the determination of the fair values of financial instruments, the classification in fair value levels 1 – 3, the impairment of financial instruments and other assets, as well as the recognition of provisions and other obligations. These assumptions, estimates and assessments influence the reported amounts of assets and liabilities, as well as the income and expenses of the reporting period. The actual results may deviate from the management's assessment.

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

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

At the end of 2013, HSBC Holdings plc had an indirect interest of 80.6 % (2011: 80.6 %) in the share capital of HSBC Trinkaus & Burkhardt AG via HSBC Germany Holdings GmbH. As a result, the consolidated financial statements of HSBC Trinkaus & Burkhardt AG are included in the consolidated financial statements of HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom, registration number 617987.

Accounting, valuation and consolidation methods

1 Scope of Consolidation

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

As in the previous year, we have fully consolidated two special funds and one closed-end real estate fund in accordance with SIC12. A detailed list of the consolidated companies in addition to these funds can be found in Note 63.

There were no changes in the scope of consolidation during the current financial year.

2 Consolidation Principles

The accounting policies were applied consistently throughout the Group.

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

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

3 Foreign Currency Translation

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

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

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

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

Translation differences without effect on the income statement amounted to €1.3 million (2012: € –2.8 million) and relate to a closed-end real estate fund in Australia as well as to a subsidiary in Hong Kong.

4 Business Combinations

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

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

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

5 Financial Instruments

Recognition

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

Financial instruments are derecognised fully, provided the Group has transferred the contractual rights to receipt of the cash flows from the financial instrument, plus all material risks and opportunities under such assets. If not all opportunities and risks are transferred, recognition is at the amount of the residual risk item, if we continue to exercise control over the financial instrument (continuing involvement). There were no transfers where not all opportunities and risks were transferred.

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

Reporting

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

Measurement approach	Measurement classes (IFRS) / Balance sheet items	Measurement categories (IAS 39)
Measurement at amortised cost	Cash reserve	
	Loans and advances to banks	Loans and receivables
	Loans and advances to customers	Loans and receivables
	Deposits by banks	Other liabilities
	Customer accounts	Other liabilities
	Certificated liabilities	Other liabilities
	Subordinated capital	Other liabilities
Measurement at fair value	Financial assets	Available-for-sale
	Trading assets / liabilities	Held-for-trading
Derivatives in hedging relationships	Trading assets / liabilities	
Contingent liabilities on guarantees and indemnity agreements		
Irrevocable loan commitments		

We also deal with the disclosure requirements of risk reporting within the Risk Report as part of the audited consolidated financial statements.

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

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

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

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

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

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

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

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

There are no sufficient measurement parameters for holdings in partnerships and specific unlisted public limited companies: on the one hand, no price is quoted for these financial instruments in an active market. On the other, a reliable, model-based calculation of the market value is not possible, since the volatility of possible securities is too great or no probability of event can be attributable to the individual securities. These holdings are measured at cost less impairments.

In the event of a reduction in value due to counterparty or sovereign risk (impairments), write-downs to the lower fair value are made. The impairment test is carried out on the occasion of every interim report. The impairments are reported in net profit from financial investments. Objective evidence of impairment on debt instruments is included as income immediately. General indicators for the existence of a rating downgrade could be a breach of contract, such as the default or delinquency in interest and principal payments, insolvency proceedings or other reorganisation measures by the borrower. Write-ups affecting the income statement up to maximum amortised cost are recognised as soon as the reason for the write-down no longer applies. Equity instruments are written down if the fair value is significantly or permanently below original cost. A decline in the fair value of a security at least 20 % below the original cost is considered significant. If the fair value has fallen permanently below the original cost in the nine months prior to the balance sheet date, this is seen as permanent impairment. Impairment is made to the fair value in both cases. If the reasons for impairment cease to exist for equity instruments – unlike debt instruments – no write-up with effect on the income statement is made. Rather, the write-ups are recognised directly in the valuation reserve for financial instruments.

(e) Other liabilities

The ‘other liabilities’ category includes all financial liabilities not allocated to the ‘fair value’ category. They are therefore not measured at fair value, but at amortised cost. Discounts and premiums are recorded proportionately within net interest income. Non-interest-bearing liabilities, such as zero-coupon promissory note loans – are measured at their interest rate as at the balance sheet date.

(f) Reclassification

As in the previous year, the option to reclassify financial instruments, pursuant to IAS 39, was not exercised.

(g) Financial guarantees and loan commitments

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

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

Provisions are created within the scope of the subsequent measurement for threatened losses from drawings.

6 Hedge Accounting

In order to hedge the market risk of fixed-income bonds held in the available-for-sale portfolio, HSBC Trinkaus applies the provisions for the reporting of hedge relationships in accordance with IAS 39 (hedge accounting). The fair value of the fixed-income bonds depends on changes in the market interest rate on the one hand and on liquidity and risk premiums for the issuer on the other. HSBC Trinkaus hedges against market-interest-rate-induced volatility by concluding interest-rate swaps with other banks, which largely compensates for the fluctuations in the fair-value of the bonds. With this hedging of fair-value fluctuations (so-called fair-value hedges), the interest-rate-induced volatility of the fixed-income bonds is recognised in the income statement in accordance with IAS 39. The spread-related fair value fluctuations of the bonds are not hedged. These are transferred to the valuation reserve for financial instruments in line with the subsequent measurement of available-for-sale securities, without effect on the income statement.

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

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

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

7 Net Loan Impairment and Other Credit Risk Provisions

HSBC Trinkaus creates net loan impairment provisions as soon as there are objective, substantial indications suggesting that the value of a financial asset is reduced.

We show net loan impairment and other credit risk provisions on the one hand as net loan impairment provision on the assets side and on the other as credit risks on the liabilities side. Net loan impairment and other credit risk provisions differentiate between individually assessed impairments/provisions on the one hand and collectively assessed impairments/provisions on the other.

Individually assessed impairments/provisions in relation to receivables recognised in the balance sheet and off-balance sheet transactions are determined individually for each borrower. All borrowers are classified in one of 23 rating classes using a Group-wide, standardised internal rating procedure. The probability of default for each borrower can be derived from the rating classes. On this basis, the expected loss for the individual loan exposures is estimated taking into account security and other agreements. Net loan impairment provision is created for loan exposures with a high risk of default. In order to calculate this provision, the future payments from the loan and if necessary from the realisation of the collateral are estimated, so that the present value of these payments can be compared with the book value of the loan exposure. The net loan impairment provision fully covers the shortfall calculated in this way. The borrower's country of domicile is also relevant.

In addition, write-downs/provisions are created on a collective basis. Provided there is no substantial objective evidence of impairment of individual assets or of individual impending losses, these assets will be aggregated collectively into a group with comparable default risks (portfolio). We then calculate the general impairment/provision on the basis of the respective default probabilities and economic indicators.

As soon as a loan is identified as uncollectible, the uncollectible amount is written off against any existing individually assessed impairments, and/or directly recognised as expense in the income statement.

8 Repurchase Agreements and Securities Lending Transactions

The securities sold under repurchase agreements (genuine repurchase agreements) are still reported and valued as securities stock in the consolidated balance sheet. The liquidity inflow is generally reported under the balance sheet item deposits by banks or customer accounts (cf. Note 18).

Similarly, the outflow of liquidity arising from reverse repos is reported under the balance sheet item loans and advances to banks or loans and advances to customers (cf. Note 18). Securities acquired under repurchase agreements are not reported.

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

Securities lending transactions are reported in the balance sheet in the same way as genuine repurchase transactions. Liquidity inflows/outflows from collateral pledged for securities lending transactions are reported under the balance sheet item deposits by banks and customer accounts.

9 Share of Profit in Associates

As associated enterprises and joint ventures, all companies in which HSBC Trinkaus & Burkhardt AG has a significant influence (either directly or indirectly) or has joint control with the other company, are carried on the balance sheet. A significant influence or joint control is assumed for voting interests of between 20 % and 50 %. Shares in associated companies and joint ventures are consolidated at equity. The Group examines at each balance sheet date whether there is evidence that an impairment loss must be taken into consideration with regard to the companies recognised at equity. In this case, the difference between the book value and the achievable amount is recognised as an impairment, and the share of profit in associates in the income statement.

10 Property, Plant and Equipment

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

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

Depreciation that exceeds wear-and-tear-related erosion is taken into consideration under impairments. An impairment loss is recognised in the amount in which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value of the asset less the cost to sell and value in use. For the impairment test, assets are combined at the lowest level for which the cash flows can be identified separately (cash-generating units). At each balance sheet date, property, plant and equipment for which impairment was recognised in the past is examined to determine whether the impairment losses possibly have to be reversed.

Regular depreciation is based on the following useful life throughout the Group:

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

11 Intangible Assets

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

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

12 Leasing

Group companies are involved in the leasing business exclusively as lessees. All leasing contracts signed are operating lease agreements. In all these agreements, the risks and benefits attendant upon ownership remain with the lessor. For this reason, the lease payments are reported under total administrative expenses (IAS 17).

13 Treasury Bonds and Shares

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

As at the end of 2013, the Bank held no shares in HSBC Trinkaus & Burkhardt AG. As in the previous year, the results of this trading in treasury shares had no material effect. The maximum holding of treasury shares was 0.00 % (2012: 0.00 %) of subscribed capital.

14 Provisions

Provisions for pensions and similar obligations, for credit risks and uncertain liabilities are reported under provisions.

Provisions for pensions and similar obligations are created on the basis of actuarial reports in the amount of the DBO (defined benefit obligation). The calculation is performed using the projected unit credit method. Within the scope of a contractual trust arrangement (CTA), certain assets were transferred into a trust corporation as collateral for pension obligations and therefore qualified as plan assets within the meaning of IAS 19. The expected income from the plan assets is offset against the expected pension expenses in the income statement. Actuarial gains and losses from the performance of the plan assets and the pensions are reported under shareholders' equity with no effect on the income statement after the deduction of deferred taxes.

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

15 Taxation Recoverable and Taxation

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

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

16 Share-Based Payments

In previous financial years, Group employees had the opportunity to participate in a share option scheme offered by HSBC Holdings plc. The previous share option scheme is graduated according to different blocking periods (one, three and five years) and allows staff to save up to the equivalent of GBP 250 per month. In accordance with IFRS 2, this option scheme is reported as share-based payments settled in the form of equity instruments. The share options are recognised at fair value. The staff expenses (service costs) derived from this – apportioned to the respective blocking period (vesting period) – are recognised in the income statement. If employment is terminated within the vesting period, the total service costs must be recognised as an expense immediately (so-called 'acceleration of vesting'). If an existing bonus programme is modified, a distinction must be made as to whether the fair value of the approval at the time of the modification exceeds or falls short of the original fair value. If the modified fair value exceeds the original fair value of the approval, the excess amount must be recognised in the income statement, in addition to the previous service costs over the vesting period. If the fair value is lower, the previous service costs remain unchanged; in other words, the modification is ignored.

Group employees had no opportunity in the year under report to participate in a new HSBC Holdings plc share option scheme.

In addition, the performance-related remuneration components for employees and the Management Board are, over a defined volume, paid partly in cash and partly in the form of an allocation of shares in HSBC Holdings plc. The performance-related components can be paid either in full as an expense in the following year or in different tranches within or at the end of the vesting period. The payment in tranches is reported as a share-based payment settled in the form of equity instruments in accordance with IFRS 2; the staff expenses are recognised immediately in full as an expense, as claims from such agreements are non-forfeitable according to Federal Labour Court (Bundesarbeitsgericht – BAG) case law. The resulting transfer obligation is revalued every month, whereby the valuation result is recognised directly in the capital reserves.

17 Reporting of Income and Expenses

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

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

All unrealised and realised trading results are reported in net trading income. In addition to the price gains/losses, this also includes interest and dividend income attributable to trading activities.

18 Change in Accounting Policies

The accounting and valuation methods applied in preparing these consolidated financial statements are in line with those applied in the 2012 financial year, except with regard to the following:

Owing to the mandatory changes in IAS 19 ‘Employee benefits’ that were to be applied retrospectively as of the 2013 financial year, the expected interest income from the plan assets is calculated taking into consideration the underlying interest rate on the defined benefit plan, among other things. The retrospective adjustment to the plan return for 2012 resulted in an increase of approx. € 1.7 million in staff expenses for the 2012 financial year and an improvement of around € 1.2 million in the valuation reserve for the remeasurement of the net pension obligation. In the opening balance sheet as at 1 January 2012 and in the balance sheet as at 31 December 2012, respectively, retained earnings were reduced by € 8.1 million and the profit carried forward was reduced by € 9.3 million on the one hand, while the valuation reserve for the remeasurement of the net pension obligation was increased by € 8.1 million and € 9.3 million on the other.

In addition, the changes to IAS 19 ‘Employee benefits’ result in a changed valuation of the benefit increases in the provisions for part-time retirement agreements. The provisions for the benefit increases will no longer be created fully at initial recognition, but rather will be accrued in instalments until retirement. The retrospective adjustment of the provision resulted in an increase of around € 0.1 million in staff expenses for the 2012 financial year. In the opening balance as at 1 January 2012 and in the balance sheet as at 31 December 2012, respectively, provisions were reduced by € 0.4 million and € 0.3 million on the one hand, while retained earnings were increased by € 0.3 million and € 0.2 million on the other. In addition, deferred taxation was increased by € 0.1 million in the opening balance as at 1 January 2012 and in the balance sheet as at 31 December 2012.

The following tables outline the adjustments to the items in question in the consolidated financial statements:

in €m	As at 01.01.2012	As at 31.12.2012
Taxation	0.1	0.1
Provisions for pensions and similar obligations	–0.4	–0.3
Valuation reserve for the remeasurement of the net pension liabilities	8.1	9.3
Retained earnings	–6.4	–7.9
Consolidated profit available for distribution	–1.4	–1.2

in €m	2012
Administrative expenses	1.8
Tax expenses	–0.6

Without adjusting the plan return or the provision for the retirement agreement, administrative expenses would have been € 6.0 million lower or € 0.2 million higher, respectively, in 2013, income tax would have been € 1.9 million higher or € 0.1 million lower, so that net income after taxes would have been € 4.1 million higher or € 0.1 million lower.

The changes to IAS 19 also led to some terminological changes. The term 'Actuarial gains and losses' was used to date in relation to gross pension obligations as well as to plan assets. This term now applies only to the effects of changes in assumptions and estimates in the valuation of the gross pension obligations and no longer to the difference between the actual and expected return on plan assets. We are therefore using the new term of 'Valuation reserve for the revaluation of the net pension obligation' in this report for the previous valuation reserve for actuarial gains and losses in shareholders' equity.

We have formed expectations to date about future goodwill payments in order to estimate the amount of goodwill provisions, without incorporating the historical data on complaints and comparison ratios derived from past events. By systematically recording complaints, we are now able to incorporate complaints and comparison ratios when estimating the goodwill provisions. This change in estimation results in income of around € 5 million from the reversal of goodwill provisions in the income statement. As this adjustment represents a change in estimation within the meaning of IAS 8, the previous year's figures do not have to be adjusted. We anticipate no comparable reversal of goodwill provisions in future periods.

The new IFRS 13 standard 'Measurement at fair value' is mandatory as of the 2013 financial year. This sets out a standard, single framework for measuring at fair value, where the term is defined, among other things, and the methods for defining fair value are presented. The application of the standard will not involve any material changes in measurement for HSBC Trinkaus. The new information required can be found in Note 55.

In addition, the measurement reserves in the statement of comprehensive income must be divided into two categories in accordance with the revised IAS 1. The valuation reserves from financial instruments and currency translation are assigned to the category in which the valuation reserves are reclassified in the income statement. However, the valuation reserves for the remeasurement of the net pension obligations are not reclassified in the income statement.

We have changed the reporting of our collateral items in the derivatives trading business as the collateral items themselves are not trading positions. Collateral previously reported under trading assets or liabilities is now reported under loans and advances to customers/banks or customers accounts/deposits by banks. We also no longer report repurchase agreements and securities lending under trading assets but under other liabilities in customer accounts/ deposits by banks. We have adjusted the previous year's figures accordingly.

The IASB revised the provisions for offsetting financial assets and liabilities and published the results on 16 December 2011 in the form of changes to IAS 32, 'Financial instruments: presentation', applicable as of the 2014 financial year, and to IFRS 7, 'Financial instruments: disclosure'. To simplify the comparison between companies that prepare IFSR financial statements and companies whose financial statements were prepared in accordance with US GAAP, the necessary disclosures were greatly extended within the scope of presenting the netting agreements. The changes to disclosures relating to IFRS 7 also provide for offsetting claims that do not lead to netting in accordance with IFRS. The netting details of IFRS 7 must be applied retrospectively and come into effect for financial years that start on or after 1 January 2013. The application of the standard only led to further clarification for HSBC Trinkaus (cf. Notes 57 and 31). Similarly, contracts where offset claims arise only in case of insolvency only lead to offsetting on the balance sheet in the event of insolvency.

IFRS 9 'Financial instruments' deals with the disclosure and presentation of financial instruments. The new standard fundamentally changes the previous provisions for the classification and measurement of financial instruments. Assuming it is endorsed by the EU, IFRS 9 is obligatory for financial years that start on or after 1 January 2018. We are currently reviewing the impact the implementation of these new provisions may have on our consolidated financial statements. The changes are likely to have a material effect on our accounting.

IFRS 10 'Consolidated Financial Statements' is the result of the IASB consolidation project and replaces the consolidation guidelines in the previous IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation – Special Purpose Entities'. IFRS 10 centres on the introduction of a single consolidation model for all companies that is based on the parent company's having control of the subsidiary. This is to be applied to parent-subsidiary relationships that are based on voting rights as well as parent-subsidiary relationships arising from other contractual agreements. Hence, special-purpose entities that are currently consolidated according to the risk and reward concept of SIC-12 must also be assessed in this manner.

The IFRS 10 control concept comprises the three following elements that must be cumulatively fulfilled:

- power of disposition,
- variable returns and
- the ability to influence the variable returns by exercising the power of disposition.

IFRS replaces IAS 31 'Interests in Joint Ventures' and SIC 13 'Jointly-controlled entities – Non-monetary Contributions by Venturers'. IFRS 11 differentiates between two types of joint arrangements: joint activities and jointly-controlled entities, and is aimed at the rights and obligations of the arrangement. The previous option to consolidate the ratio of jointly-controlled entities that was not applied by the Group (proportional consolidation) has been eliminated and the equity method is now mandatory.

IFRS 12 'Disclosure of Interest in Other Entities' summarises in one standard the disclosure requirements for all forms of interest in subsidiaries, joint arrangements and associated companies and in unconsolidated special-purpose entities. Pursuant to the new standard, companies must make quantitative and qualitative disclosures that allow the users to recognise the type, risks and financial impact that are associated with the company's interest in these affiliated companies.

IFRS 10, IFRS 11 and IFRS 12 shall be applied in the EU for the first time in the 2014 financial year. We assume that the changes, with the exception of the extended disclosure requirements, will not lead to any changes in accounting practices.

All changes to other standards and interpretations, the early application of which we have dispensed with, are of no or only minor significance for our consolidated financial statements.

19 Material Events Occurring After the Balance Sheet Date

No events materially affecting the asset situation, the financial position or profitability took place between the balance sheet date and the date on which these accounts were prepared.

Notes to the Consolidated Balance Sheet

20 Cash Reserve

in €m	31.12.2013	31.12.2012
Cash in hand	1.4	2.1
Balances held with central banks	1,132.3	262.9
Total	**1,133.7**	**265.0**

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

21 Loans and Advances to Banks

in €m	31.12.2013	31.12.2012
Current accounts	519.2	400.0
Money market transactions	662.0	544.6
of which overnight money	46.4	73.2
of which term deposits	615.6	471.4
Other loans and advances	259.4	140.4
Collateral items in the derivatives trading business	203.2	466.2
Total	**1,643.8**	**1,551.2**
of which to banks	198.7	178.3
of which to foreign banks	1,445.1	1,372.9

We have changed the reporting of our collateral items in the derivatives trading business with banks. They were reported to date under trading assets and are now shown under loans and advances to banks. In addition, repurchase agreements and securities lending are no longer reported under trading assets but under other loans and advances in the loans and advances to banks. We have adjusted the previous year's figures.

Loans and advances to banks also include deposits within the HSBC Group.

22 Loans and Advances to Customers

in €m	31.12.2013	31.12.2012
Current accounts	1,229.6	1,104.8
Money market transactions	529.5	574.8
of which overnight money	63.6	77.0
of which term deposits	465.9	497.8
Loan accounts	2,865.5	2,374.7
Other loans and advances	163.2	138.3
Collateral items in the derivatives trading business	69.8	361.7
Total	4,857.6	4,554.3
of which to domestic customers	3,029.5	2,904.8
of which to foreign customers	1,828.1	1,649.5

We have changed the reporting of our collateral items in the derivatives trading business with customers. They were reported to date under trading assets and are now shown under loans and advances to customers. In addition, repurchase agreements and securities lending are no longer reported under trading assets but under other loans and advances in the loans and advances to customers. We have adjusted the previous year's figures.

The increase in the number of loan accounts is due, in particular, to the corporate customer lending business and reflects the growth strategy we have embarked upon.

23 Net Loan Impairment and Other Credit Risk Provisions

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

in €m	31.12.2013	31.12.2012
Net loan impairment provision	33.4	25.2
Provisions for credit risks	5.9	4.1
Net loan impairment and other credit risk provisions	39.3	29.3

Net loan impairment provision relates exclusively to adjustments on loans and advances to customers. Collectively assessed impairments were increased in order to justify the higher lending volume and the slight change in the portfolio structure, among other things.

Net loan impairment provision developed as follows:

	Impairments				Total	
	Individually assessed		Collectively assessed			
in €m	2013	2012	2013	2012	2013	2012
As at 01.01	12.9	16.6	12.3	10.5	25.2	27.1
Reversals	0.8	10.0	0.0	0.0	0.8	10.0
Utilisation	0.2	2.4	0.0	0.0	0.2	2.4
Additions	4.6	8.7	5.4	1.8	10.0	10.5
Direct write-offs	0.0	0.0	0.0	0.0	0.0	0.0
Currency-translation effects/transfers	–0.8	0.0	0.0	0.0	–0.8	0.0
As at 31.12	15.7	12.9	17.7	12.3	33.4	25.2

Provisions for credit risks developed as follows:

	Provisions				Total	
	Individually assessed		Collectively assessed			
in €m	2013	2012	2013	2012	2013	2012
As at 01.01	0.0	0.0	4.1	3.2	4.1	3.2
Reversals	0.0	0.0	0.0	0.0	0.0	0.0
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	1.8	0.9	1.8	0.9
Currency-translation effects/transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12	0.0	0.0	5.9	4.1	5.9	4.1

24 Trading Assets

in €m	31.12.2013	31.12.2012
Bonds and other fixed-income securities	2,484.0	3,853.2
of which:		
public-sector issuers	1,668.8	2,463.7
other issuers	815.2	1,389.5
of which:		
listed	2,454.9	3,823.1
unlisted	29.1	30.1
Equities and other non-fixed-income securities	1,393.4	807.9
of which:		
listed	1,337.4	738.8
unlisted	56.0	69.1
Tradable receivables	1,420.3	1,770.9
Positive market value of derivatives	1,449.9	1,829.5
of which:		
OTC derivatives	1,136.6	1,595.1
exchange-traded derivatives	313.3	234.4
Derivatives in hedging relationships	6.0	0.0
Total	**6,753.6**	**8,261.5**

We have changed the reporting of our collateral items in the derivatives trading business. They were reported to date under trading assets and are now shown under Loans and advances to customers/banks. In addition, repurchase agreements and securities lending are no longer reported under trading assets but under other loans and advances in loans and advances to customers/banks. We have adjusted the previous year's figures.

The decline in the positive market value of the derivatives corresponds with the decline in the negative market value of the derivatives in the liabilities held for trading.

Tradable receivables are recognised mainly as promissory note loans and registered bonds.

25 Financial Assets

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

in €m	31.12.2013	31.12.2012
Bonds and other fixed-income securities	4,693.7	4,612.9
of which:		
public-sector issuers	2,130.2	2,072.6
other issuers	2,563.5	2,540.3
of which:		
listed	4,635.7	4,551.9
unlisted	58.0	61.0
Equities	29.9	38.9
Investment certificates	95.5	80.2
Promissory-note loans	209.1	235.6
Investments	96.6	100.7
Total	**5,124.8**	**5,068.3**

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

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

in €m	31.12.2013	31.12.2012
Bonds and other fixed-income securities	96.3	134.5
Equities	3.2	8.2
Investment certificates	14.1	9.6
Promissory-note loans	21.4	27.9
Investments	35.2	31.8
Total	**170.2**	**212.0**

26 Share of Profit in Associates

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

in €m	2013	2012
Book value as at 01.01.	**55.1**	**65.2**
Additions	0.0	0.0
Share of results of financial year	0.3	0.4
Impairments	0.0	–8.5
Dividend distribution	–0.9	–0.7
Disposals	0.0	–1.3
Book value as at 31.12.	**54.5**	**55.1**

We show HSBC Global Asset Management (Switzerland) AG, Zurich, which is managed as a joint venture with HSBC Global Asset Management (France), Paris and HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments oHG, Düsseldorf, which is a joint venture with Société Financière et Mobilière, Paris, as companies that are consolidated at equity.

All in all, the assets and liabilities of the companies consolidated at equity amount to € 549.2 million (2012: € 552.5 million) and € 1.0 million (2012: € 0.5 million), respectively, on pre-tax profit of € 3.9 million (2012: € 7.8 million).

27 Investment Overview

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2013	80.3	91.1	171.4	108.2
Increases	3.6	18.3	21.9	1.4
Disposals	0.0	8.7	8.7	0.3
Acquisition costs as at 31.12.2013	83.9	100.7	184.6	109.3
Depreciation as at 01.01.2013	33.7	57.2	90.9	84.5
Regular depreciation	1.1	12.1	13.2	8.3
Non-scheduled depreciation	0.0	4.2	4.2	0.6
Depreciation of reversals	0.0	7.5	7.5	0.0
Depreciation as at 31.12.2013	34.8	66.0	100.8	93.4
Carrying amount as at 31.12.2013	**49.1**	**34.7**	**83.8**	**15.9**
Carrying amount as at 31.12.2012	**46.6**	**33.9**	**80.5**	**23.7**

in €m	Land and buildings	Operating and office equipment	Fixed assets (aggregate)	Intangible assets
Acquisition costs as at 01.01.2012	79.7	83.4	163.1	107.0
Increases	0.6	20.4	21.0	1.5
Disposals	0.0	12.7	12.7	0.3
Acquisition costs as at 31.12.2012	80.3	91.1	171.4	108.2
Depreciation as at 01.01.2012	32.6	51.2	83.8	75.7
Regular depreciation	1.1	12.3	13.4	8.9
Non-scheduled depreciation	0.0	0.0	0.0	0.0
Depreciation of reversals	0.0	6.3	6.3	0.1
Depreciation as at 31.12.2012	33.7	57.2	90.9	84.5
Carrying amount as at 31.12.2012	**46.6**	**33.9**	**80.5**	**23.7**
Carrying amount as at 31.12.2011	**47.1**	**32.2**	**79.3**	**31.3**

Intangible assets include goodwill of € 4.4 million (2012: € 4.4 million). As in the previous year, foreign-currency translation did not affect property, plant and equipment values.

28 Taxation Recoverable

in €m	31.12.2013	31.12.2012*
Current taxation recoverable	5.2	1.2
Deferred taxation recoverable	5.7	0.0
Total	10.9	1.2

* Prior year's figures adjusted. The adjustments are explained in Note 18.

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

29 Other Assets

Other assets of € 164.5 million (2012: € 212.1 million) include one property in a consolidated closed-end real estate fund with a book value totalling € 124.3 million (2012: € 147.5 million). The decline is due to the significantly weaker Australian dollar against the euro compared with year-end and corresponds with the low valuation of the corresponding external financing. As in the previous year, no interest on borrowing was activated in the current year. Additionally, this item predominately includes excess cover from our CTAs of € 1.5 million (2012: € 1.6 million) and other taxes of € 2.8 million (2012: € 1.1 million).

30 Subordinated Assets

The following overview shows the composition of our subordinated assets:

in €m	31.12.2013	31.12.2012
Bonds and other fixed-income securities	247.9	162.3
Profit-participation certificates	7.4	7.4
Total	255.3	169.7

31 Repurchase Agreements and Securities Lending

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

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

in €m	31.12.2013		31.12.2012	
Type of transaction	Market value of the transferred financial assets	Book value of the associated financial liabilities	Market value of the transferred financial assets	Book value of the associated financial liabilities
Repurchase agreements	0.0	0.0	0.0	0.0
Securities-lending transactions	52.9	8.0	44.0	2.1
Total	52.9	8.0	44.0	2.1

The following table provides an overview of the securities received:

in €m	31.12.2013		31.12.2012	
Type of transaction	Fair value of the transferred financial assets	Book value of the associated receivable	Fair value of the transferred financial assets	Book value of the associated receivable
Repurchase agreements	43.4	43.7	127.9	113.5
of which may be sold or pledged	43.4	–	127.9	–
of which are already sold or pledged	0.0	–	0.0	–
Securities lending transactions	62.2	14.3	86.9	9.7
of which may be sold or pledged	50.0	–	50.6	–
of which are already sold or pledged	12.2	–	36.3	–
Total	105.6	58.0	214.8	123.2

The overview includes the financial instruments that cannot be reported in accordance with IAS 39, as well as the associated receivables. There is no on-balance-sheet netting.

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

32 Deposits by Banks

in €m	31.12.2013	31.12.2012
Current accounts	648.1	561.5
Money market transactions	270.8	402.4
of which overnight money	2.8	22.9
of which term deposits	268.0	379.5
Other liabilities	145.3	90.9
Collateral items in the derivatives trading business	205.2	164.7
Total	**1,269.4**	**1,219.5**
of which domestic banks	439.1	367.1
of which foreign banks	830.3	852.4

We have changed the reporting of our collateral items in the derivatives trading business with banks. They were reported to date under trading assets and are now shown under deposits by banks. In addition, repurchase agreements and securities lending are no longer reported under trading assets but under other liabilities in the item deposits by banks. We have adjusted the previous year's figures. As at 31 December 2013, deposits by banks secured by charges on real property amounted to € 52.8 million (2012: € 72.2 million).

33 Customer Accounts

in €m	31.12.2013	31.12.2012
Current accounts	9,149.9	8,163.3
Money market transactions	2,642.4	3,394.9
of which overnight money	396.4	750.0
of which term deposits	2,246.0	2,644.9
Savings deposits	57.2	53.6
Other liabilities	369.6	268.6
Total	**12,219.1**	**11,880.4**
of which domestic customers	10,681.7	8,885.8
of which foreign customers	1,537.4	2,994.6

We have changed the reporting of our collateral items in the derivatives trading business with customers. Previously reported under trading assets, they are now reported under other liabilities in the item customer accounts. In addition, repurchase agreements and securities lending are no longer reported under trading assets but under other liabilities in the item customer accounts. We have adjusted the previous year's figures.

Customer accounts continue to represent our main refinancing source. We believe the high level of customer deposits reflects the clear commitment of our customers to our solid business policy.

34 Certificated Liabilities

Certificated liabilities relate to bonds issued in the amount of € 10 million (2012: € 10 million).

35 Trading Liabilities

in €m	31.12.2013	31.12.2012
Negative market value of derivatives	1,881.3	2,408.3
Promissory note loans, bonds, certificates and warrants	2,114.5	2,195.2
Delivery obligations arising from securities sold short	53.1	41.5
Derivatives in hedging relationships	46.9	70.4
Derivatives held in the banking book	4.1	6.5
Total	4,099.9	4,721.9

We have changed the reporting of our collateral items in the derivatives trading business. These were reported to date under trading assets and are now shown under customer accounts/deposits by banks. In addition, repurchase agreements and securities lending are no longer reported under trading assets but under customer accounts/deposits by banks. We have adjusted the previous year's figures.

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

36 Provisions

in €m	As at 31.12.2012	Retro-spective adjust-ment	As at 01.01.2013	Utilisation	Reversals	Additions / com-pounding	Transfers / other	Actuarial result	As at 31.12.2013
Provisions for pensions and similar obligations	28.3	−0.3	28.0	4.0	0.0	4.9	−0.1	−3.5	25.3
Provisions related to human resources	0.1	0.0	0.1	0.0	0.1	0.2	0.0	0.0	0.2
Provisions for credit risks	4.1	0.0	4.1	0.0	0.0	1.8	0.0	0.0	5.9
Provisions for other taxes	2.6	0.0	2.6	0.0	1.5	0.0	0.0	0.0	1.1
Other provisions	101.8	0.0	101.8	20.2	48.6	77.2	0.0	0.0	110.2
Provisions	**136.9**	**−0.3**	**136.6**	**24.2**	**50.2**	**84.1**	**−0.1**	**−3.5**	**142.7**

The provisions for pensions and similar obligations also include the obligations arising from semi-retirement, early retirement and anniversary regulations.

In addition, these items include the obligations in the amount of € 14.3 million arising from the lifetime working account model.

Provisions for credit risks include provisions for impending losses in connection with sureties, acceptances and credit commitments. They are a part of net loan impairment and other credit-risk provisions (cf. Note 23).

The provisions for other taxes include expected payment obligations resulting from auditing for income tax from previous years.

Other provisions comprise above all provisions created in conjunction with the withdrawal from Luxembourg as well as provisions for contingent liabilities from IT agreements and customer complaints.

Provisions for pensions and similar obligations

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

Collective regulations

(a) Legal framework

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

(b) Open regulations for new business

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

(c) Closed regulation

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

Two further pension plans exist for employees who joined the company before 31 December 2000 and former employees of the Hamburg branch; these were closed for new policies. Beneficiaries of this regulation receive benefits in the form of lifelong old-age, invalidity and survivors pensions. These are final salary schemes dependent on the length of service with a divided benefit formula.

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

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

(d) BVV Versicherungsverein des Bankgewerbes a.G.

In addition, several group companies pay contributions to BVV Versicherungsverein des Bankgewerbes a.G. or to BVV Versorgungskasse des Bankgewerbes e.V. These are treated as a defined contribution plan. Some of the contributions consist of the employees' deferred compensation. Total expenditure for the year amounted to € 5.3 million (2012: € 5.2 million).

Individual commitments

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

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

Financing

Plan assets were created to fund the pension obligations and separated through a so-called Contractual Trust Agreement (CTA). HSBC Trinkaus Vermögenstreuhänder e. V. and HSBC Trinkaus Mitarbeitertreuhänder e. V assume the role of trustee. Active members of the trustee constitute two members of the Management Board of HSBC Trinkaus and two employees.

The Bank regularly aims to comprehensively finance the committed benefits externally. There is no obligation to allocate contributions to the CTA. The Bank is entitled to assets that are not needed to fund the committed benefits. With the exception of the reinvestment of the distribution amount, the Bank currently has no intentions to allocate further funds to the plan assets.

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

The strategic aim of the investment is to achieve as continuous an increase in value as possible over time. For this purpose, the fund invests in liquid asset classes such as equities, government bonds, corporate bonds, currencies or commodities. It invests in both the developed regions as well as in emerging markets. Overall, emphasis is placed on a high degree of diversification.

Risk aspects

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

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

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

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

The extent of the obligation (defined benefit obligation, DBO) of the closed pension fund amounts to € 175.1 million during the period under report (of which benefit recipients € 55.8 million); the DBO of the individual commitments amounts to € 64.2 million (of which benefit recipients € 33.3 million). The DBO of the open pension fund amounts to € 0.0 million, as this regulation only came into effect as at 1 July 2013. Capital commitments account for € 32.6 million.

The pension obligations are calculated in the actuarial opinion using the projected unit credit method. Besides the current mortality tables (Heubeck tables 2005 G), we base these annual measurements on the following parameters:

in %	31.12.2013	31.12.2012
Long-term base rate of interest	3.47	3.39
Estimated salary increases	3.0	3.0
Estimated pension indexation	2.0	2.0
Estimated rate of inflation	2.0	2.0
Expected increase in the contribution ceiling for social insurance	2.5	2.5

The base rate of interest is calculated on the basis of the average yield on long-term and first-class bonds. It was 3.47 % (2012: 3.39 %) during the year under report on an 18-year duration of the liabilities. Consultancy company Towers Watson's 'Global Rate: Link' is used for calculating interest. This includes bonds rated at least AA while taking other specific factors into account.

Sensitivity analyses for the defined benefit obligations

Pursuant to IAS 19.145, the extent by which the key measurement assumption for the DBO could 'reasonably' change during a one-year period must be determined. The rate of interest, the assumed rate of inflation and the underlying salary increase rate must be regarded regularly as major assumptions:

Measurement parameter	Initial value	Sensitivity	Impact on the DBO
Base rate of interest	3.47 %	+ 1.00 percentage points	– 14.9 %
Base rate of interest	3.47 %	– 1.00 percentage points	19.4 %
Development of salaries	3.00 %	– 0.50 percentage points	– 3.0 %
Development of salaries	3.00 %	+ 0.50 percentage points	3.4 %
Pension increase	2.00 %	– 0.25 percentage points	– 2.5 %
Pension increase	2.00 %	+ 0.25 percentage points	2.6 %
Development in BBG	2.50 %	– 0.25 percentage points	0.0 %
Development in BBG	2.50 %	+ 0.25 percentage points	– 1.3 %
Life expectancy	Pursuant to FT 2005 G	+ 1 year for a person currently aged 65	2.7 %

Development of pension obligations

in €m	2013	2012*
Pension obligations as at 31.12 (before adjustments)	278.1	212.8
Retrospective adjustment	–0.3	–0.4
Pension obligations as at 01.01	277.8	212.4
Service costs	11.3	9.9
Interest expense	9.1	10.0
Pensions paid	–10.8	–11.3
Transfers and others	6.1	4.8
Change in actuarial gains and losses	–0.9	52.0
from adjustment to the obligations	2.4	–0.8
from changes to the demographic assumptions	0.0	0.0
from changes to the financial assumptions	–3.3	52.8
Pension obligations as at 31.12	292.6	277.8

* Prior year's figures adjusted. The adjustments are explained in Note 18.

The 'Transfer/other' item includes additions of the obligations from the lifetime working account model.

Distribution of pension obligations

in €m	2013	2012
Assets	168.0	151.8
of which vesting	112.2	105.4
Vested benefits of former employees	35.5	33.5
Beneficiaries	89.1	92.5
Total	**292.6**	**277.8**

Breakdown of pension obligations

in €m	2013	2012	2011	2010	2009
Non-funded pension obligations	17.1	14.8	10.5	9.9	8.1
Funded pension obligations					
Present value of the pension obligations	275.5	263.0	202.3	196.1	182.7
Fair value of the plan assets	268.8	251.4	196.9	203.8	197.4
Balance	6.7	11.6	5.4	–7.7	–14.7
of which plan shortfall	8.2	13.2	6.4	2.8	4.0
of which plan excess	1.5	1.6	1.0	10.5	18.7
Total pension obligations	25.3	28.0	16.9	12.8	12.1
Remeasurement of net pension obligations					
from plan assets (before taxes)	–9.8	–12.5	–32.8	–16.8	–16.6
from plan obligations (before taxes)	–74.7	–75.6	–23.6	–26.9	–17.6

The cumulative valuation reserves for the remeasurement of net pension obligations, which are recorded in shareholders' equity with no effect on the income statement, amounted to a loss of € 58.6 million after taxes (2012: € 60.3 million).

The gains from the remeasurement of the net pension obligations in the year under report were created on the assets side.

Impact of the obligation on future cash flows

in €m	2014	2015	2016	2017	2018	2019–2023
Future cash flows	9.2	9.3	9.7	9.5	9.7	55.2

Development of the fair value of plan assets

in €m	2013	2012*
Fair value of plan assets as at 01.01	251.4	196.9
Additions/withdrawals	6.3	36.0
Reversals	0.0	0.0
Interest income	8.5	9.8
Actual income excluding interest income	2.6	8.7
Fair value of plan assets as at 31.12	268.8	251.4

* Prior year's figures adjusted. The adjustments are explained in Note 18.

We show the addition to the plan assets from the life-long working time account model, the purchase of further fund units in the plan assets and the distribution from the plan assets.

Breakdown of the fair value of plan assets

in €m	2013	2012
Bonds and other fixed-income securities	87.0	86.0
Equities	20.2	17.5
Discount/index certificates	66.0	53.4
Reinsurance claims from life insurance	18.5	17.8
Investment funds	54.2	43.1
Closed-end real estate funds	4.0	4.0
Other	18.9	29.6
Fair value of plan assets as at 31.12	268.8	251.4

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

37 Taxation

in €m	31.12.2013	31.12.2012*
Current taxation	39.9	53.4
Deferred taxation	0.0	12.4
Total	**39.9**	**65.8**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

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

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

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

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

in €m	31.12.2013	31.12.2012*	Change
	As shown in the balance sheet	**As shown in the balance sheet**	
Trading portfolio**	3.8	5.2	–1.4
Share-based payments	3.2	4.1	–0.9
Intangible assets	2.3	2.2	0.1
Loss carried forward	0.0	0.0	0.0
Derivatives held in the banking book	0.0	0.0	0.0
Buildings	–0.1	–0.1	0.0
Net loan impairment provision	–8.2	–2.0	–6.2
Pensions	–8.2	–5.2	–3.0
Financial assets	–1.8	–2.0	0.2
Provisions	–8.8	–12.1	3.3
Recognised in the income statement	**–17.8**	**–9.8**	**–8.0**
Financial instruments	37.6	51.4	–13.8
Foreign-currency translation	0.5	–1.3	1.8
Pensions	–26.0	–27.8	1.8
Without effect on income	**12.1**	**22.3**	**–10.2**
Deferred taxes	**–5.7**	**12.5**	**–18.2**
of which taxation recoverable	–5.7	0.0	–5.7
of which taxation	0.0	12.5	–12.5

* Prior year's figures adjusted. The adjustments are explained in Note 18.
** Balance from measurement differences in all trading activities

38 Other Liabilities

in €m	31.12.2013	31.12.2012*
Liabilities from other taxes	14.4	15.3
Deferred income	8.1	14.6
Accrued interest on		
subordinated liabilities	6.7	6.8
participatory capital	4.9	4.9
Other liabilities	195.2	233.4
Total	**229.3**	**275.0**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

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

Other liabilities include predominantly trade payables and liabilities from performance-related remuneration.

39 Subordinated Capital

in €m	31.12.2013	31.12.2012
Subordinated liabilities (promissory-note loans, bonds)	245.7	253.4
Participatory capital	100.0	100.0
Total	**345.7**	**353.4**

A resolution passed at the Annual General Meeting on 5 June 2012 authorised the Management Board to issue registered and/or bearer participation rights without a conversion or option right with the approval of the Supervisory Board on one or several occasions by 4 June 2017 up to a total amount of € 300 million. No use was made of this facility in the last financial year.

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

Subordinated capital of € 317.2 million (2012: € 320.3 million) – before discounts and market support deductions – is referred to for the calculation of liable equity according to section 10 (5a) of the German Banking Act (KWG).

For the 2013 financial year, interest payable amounts to € 12.6 million (2011: € 12.6 million) on subordinated liabilities and to € 4.9 million (2012: € 4.9 million) on participatory capital.

Interest and repayment of subordinated liabilities

Interest rates	Nominal amount (€m) 31.12.2013	Nominal amount (€m) 31.12.2012
5 % or lower	100.2	100.2
Over 5 % up to 8 %	145.5	153.2
Fixed rates	245.7	253.4
Variable rates	0.0	0.0
Total	**245.7**	**253.4**

Repayment	Nominal amount (€m) 31.12.2013	Nominal amount (€m) 31.12.2012
Up to 1 year	47.5	7.7
Over 1 year up to 5 years	65.2	97.7
Over 5 years	133.0	148.0
Total	**245.7**	**253.4**

40 Shareholders' Equity

HSBC Trinkaus & Burkhardt AG's subscribed capital as at 31 December 2013 amounted to € 75.4 million (2012: € 75.4 million) and is divided into 28,107,693 no-par value shares. This is unchanged from the previous year.

The Management Board is authorised to increase the share capital by up to € 37.7 million on or before 31 May 2016, with the Supervisory Board's approval, through one or more issues of new bearer shares against cash contributions or contributions in kind (authorised capital).

The share capital is also subject to a conditional capital increase of up to € 37.7 million by means of issuing no-par value bearer shares. The contingent capital increase may only be carried out to the extent that the holders of convertible and option rights make use of the conversion and option rights under the convertible bonds or bonds cum warrants, or profit participation rights to be issued on or before 31 May 2016 (conditional capital).

Valuation reserve for financial instruments

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

in €m	2013	2012
Net valuation reserve as at 01.01	160.6	88.5
Disposals / additions (gross)	–19.2	35.1
Market fluctuations (gross)	–21.9	63.2
Impairments (gross)	–0.7	0.0
Deferred taxes	13.8	–26.2
Net valuation reserve as at 31.12	132.6	160.6

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

41 Minority Interests

Shares recognised to date as minority interests comprise a limited partner's share on a closed-end real estate fund that is fully-consolidated in the consolidated financial statements. Following another legal review in conjunction with considerations on the future use of the real estate, it was determined that the control, and all opportunities and risks, associated with the limited partner's share are not allocable to the holder of the limited partner's shares, but to HSBC Trinkaus & Burkhardt AG. Consequently, we no longer report any minority interests with immediate effect. We have adjusted the comparative figures accordingly.

Notes to the Consolidated Income Statement

42 Net Interest Income

in €m	2013	2012
Interest income	**236.1**	**253.7**
From loans and advances to banks	17.0	24.2
Money market transactions	12.5	20.7
Other interest-bearing receivables	4.4	3.5
Reverse repos	0.1	0.0
From loans and advances to customers	96.3	101.0
Money market transactions	8.5	12.3
Other interest-bearing receivables	87.8	88.7
From financial assets	122.8	128.5
Interest income	117.8	125.2
Dividend income	2.6	2.0
Income from subsidiaries	2.4	1.3
Interest expense	**70.3**	**78.0**
From deposits by banks	22.3	18.1
Money market transactions	1.1	5.0
Other interest-bearing deposits	21.2	13.1
From customer accounts	20.1	27.9
Money market transactions	5.2	10.4
Other interest-bearing deposits	14.9	17.5
From certificated liabilities	0.4	0.4
From subordinated capital	17.4	17.5
Other	10.1	14.1
Net interest income	**165.8**	**175.7**

Net interest income fell slightly by € 9.9 million to € 165.8 million, due to the withdrawal from Luxembourg, among other things.

Net interest income from the deposit-taking business remains under significant pressure. On a slightly higher volume, margins deteriorated considerably on the back of the central banks' low interest-rate policy.

Net interest income from the lending business improved considerably compared with the previous year due to the higher volume of business in the course of our growth strategy, while margins fell slightly.

Net interest income from financial assets continued to fall. Bullet bonds with a comparable risk profile could only be replaced by others with significantly lower coupons in the 2013 market environment.

During the period under report, interest income from financial assets subject to impairment was recognised in the amount of € 0.6 million (2012: € 0.9 million).

43 Net Loan Impairment and Other Credit Risk Provisions

in €m	2013	2012
Additions	11.8	11.4
Reversals	0.8	10.0
Direct write-offs	0.0	0.0
Recoveries on loans and advances previously written off	0.1	0.5
Total	**10.9**	**0.9**

The write-offs relate almost entirely to financial instruments, which we report in loans and advances to customers or state as contingent liabilities and irrevocable loan commitments.

After net loan impairment and other credit risk provisions of € 0.9 million the previous year, the figure amounted to € 10.9 million in the 2013 financial year. There was an increase in individually assessed impairments of € 4.6 million and a release of € 0.8 million. A net increase in collectively assessed impairments of € 7.2 million was required owing to the increased lending volume in the wake of our growth strategy as well as the slight change in the portfolio structure.

44 Share of Profit in Associates

The share of profit in associates amounted to € 0.3 million (2012: € –8.1 million). The previous year's result was largely due to the write-down on an interest held, which was necessary because of the changes emerging in the regulatory environment of the interest held.

45 Net Fee Income

in €m	2013	2012
Securities transactions	216.5	213.3
Foreign-exchange transactions and derivatives	92.6	102.6
Lending	23.0	14.3
Investment banking	13.2	7.4
Payments	12.9	11.7
Alternative investments	11.9	3.4
Issuing and structuring business	10.2	14.5
International business	9.7	9.7
Other fee-based business	11.1	6.8
Total	**401.1**	**383.7**

The fee-based business, which accounted for a 57.0 % share of operating profit (2012: 54.4 %), remains a crucial factor to HSNC Trinkaus' success. Net fee income of € 401.1 million was up 4.5 % on the previous year's figure of € 383.7 million.

In the securities business, we continued to feel the effects of the cautious stance adopted by our customers on the capital market during the year.

At € 92.6 million, the result generated in the fee-based business with foreign exchange and derivatives was down significantly by € 10.0 million (2012: € 102.6 million). We continued to benefit in this business from the extremely close cooperation with HSBC Group companies, which assumed most of the risks from these transactions and thus contributed to very competitive pricing.

We once again succeeded in significantly improving our results in the lending business; our corporate customer and fee-based business therefore continued to grow profitably. Net fee income increased by € 8.7 million to € 23.0 million. This increase is attributable not least to commission from lead arrangements of large-volume syndicated loans.

We also increased net fee income from Investment Banking from € 7.4 million the year before to € 13.2 million. This is largely down to supporting customers with their capital increases. On the other hand, net fee income from the issuing and structuring business fell by € 4.3 million.

Alternative investments have established themselves as a separate asset class for our sophisticated customer base. Net fee income amounted to € 11.9 million and increased year-on-year by € 8.5 million, as we provided our customers with access to new investment opportunities during the year under report.

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

46 Net Trading Income

in €m	2013	2012
Equities and equity/index derivatives	39.9	77.2
Bonds and interest-rate derivatives	52.8	74.3
Foreign exchange	6.2	11.3
Derivatives held in the banking book	–3.2	–1.0
Total	**95.7**	**161.8**

There was a significant decline in net trading income of € 66.1 million to € 95.7 million due above all to one-time effects the previous year. One the one hand, the Bank benefited in 2012 from the extraordinary effect of a subsequent increase in compensation in income from trading in equities and equity/index derivatives. On the other, income from Treasury operations was included in income from the fixed-income and interest-rate derivatives business in the comparable period which could not be repeated in 2013 owing to the change in the interest-rate environment. Weak client demand for trading-oriented retail products and certificates continues to put pressure on net trading income.

At € 6.2 million, the result from the foreign-exchange business is down considerably from the previous year's extraordinarily high figure of € 11.3 million.

Losses incurred on our derivatives in the banking book rose from € 1.0 million the year before to € 3.2 million. This is largely in conjunction with the interest-rate and currency hedging of our real estate project in Australia.

47 Administrative Expenses

in €m	2013	2012*
Staff expenses	286.2	319.7
Wages and salaries	238.7	276.1
Social security costs	29.4	27.3
Expenses for retirement pensions and other employee benefits	18.1	16.3
Other administrative expenses	173.7	153.0
Depreciation of property, plant and equipment and of intangible assets	26.3	22.3
Total	486.2	495.0

* Prior year's figures adjusted. The adjustments are explained in Note 18.

Administrative expenses in the financial year fell by € 8.8 million compared with the adjusted administrative expenses the year before to € 486.2 million.

Staff expenses declined significantly by € 33.5 million to € 286.2 million (adjusted prior-year figure: € 319.7 million). The decline is largely due to the high restructuring expenses incurred the year before and reduced variable salary components. Provisions were already created the year before for staff expenses expected in conjunction with the withdrawal from Luxembourg, so that further expenses incurred here in the current year were only marginal.

The development of other administrative expenses is also defined by the impact of the withdrawal from Luxembourg. Having incurred € 153.0 million in administrative expenses the previous year, the figure for the year under report was € 173.7 million. Depreciation also increased from € 22.3 million to € 26.3 million due to non-recurring depreciation. The respective increase is largely due to the start of the discontinuation of our activities in Luxembourg.

Other administrative expenses include € 37.6 million (2012: € 34.1 million) in expenses arising from rental and lease payments.

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

in €m	2013	2012
Expenses for defined benefit plans	11.9	9.8
of which current service costs	11.3	9.9
of which interest expense	9.1	10.0
of which estimated income from the plan assets	–8.5	–10.1
Expenses for defined contribution plans	5.3	5.2
Other expenses for retirement provisions	0.9	1.3
Total	18.1	16.3

48 Income from Financial Assets

Income from financial assets included a profit of € 16.3 million (2012: € 9.1 million) in the year under report. This positive development resulted mainly from disposals of € 10.2 million (2012: € 5.7 million) and € 5.9 million (2012: € 6.1 million) from the transfer of HSBC shares in conjunction with share-based payment plans. On balance, impairments on investments and reversals on securities resulted in income of € 0.2 million, after expenses of € 2.7 million the year before.

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

in €m	2013	2012
Income statement		
Net gain/loss from disposal	16.1	11.8
Tax expenses	–3.0	–1.9
Net realisation gain in the income statement	**13.1**	**9.9**
Performance of the gross valuation reserve for financial instruments		
Change from disposals (derecognition)	–16.1	–11.8
of which volatility in the year under report	–3.9	–8.5
of which volatility in previous years	–12.2	–3.3
Performance of corresponding tax expenses		
Change from disposals (derecognition)	3.0	1.9
of which volatility in the year under report	–0.8	0.9
of which volatility in previous years	3.8	1.0

The following table shows the performance of the impairments or write-ups on the financial assets:

in €m	2013	2012
Income statement		
Impairments/write-ups on financial instruments	0.2	–2.7
Performance of the valuation reserve for financial instruments		
Changes from impairments/write-ups	–0.2	2.7
of which volatility in the year under report	–0.2	2.7
of which volatility in previous years	0.0	0.0
Performance of corresponding tax expenses		
Changes from impairments/write-ups	0.2	–0.9
of which volatility in the year under report	0.2	–0.9
of which volatility in previous years	0.0	0.0

49 Net Other Income

in €m	2013	2012
Other operating income	53.7	33.4
Other operating expenses	16.8	42.1
Other operating income	**36.9**	**–8.7**
Other income	0.3	0.5
Other expenses	0.2	0.2
Other net income	**0.1**	**0.3**
Net other income	**37.0**	**–8.4**

Other operating income of € 36.9 million (2012: € –8.7 million) includes mainly rental income generated above all from our real estate project in Australia. Income was also generated from the net reversal of provisions created for onerous contracts and pending litigation, as well as from the sale of the private banking activities and the fund business related to private banking in Luxembourg to the Liechstenstein VP Bank Group. The hedge result amounts to € –0.2 million after € –0.1 million; we report this as net income as of the 2013 financial year. We have adjusted the comparable figures accordingly.

Other net income amounts to € 0.1 million after € 0.3 million the year before.

50 Tax Expenses

in €m	2013	2012*
Current taxes	71.8	85.4
of which off-period	1.0	0.2
Deferred taxes from change in limited valuation differences	–8.0	0.5
Deferred taxes from changes to the tax rates	0.0	0.0
Total	**63.8**	**85.9**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

As in the previous year, the effective corporation tax in Germany is 15.8 %. Taking trade income tax into account, the combined tax rate remains at 31.4 %. The rate also forms the basis for calculating deferred taxes.

The following table shows the relationship between income taxes derived from pre-tax profit for the year and the actual income tax reported.

in €m	2013	2012*
Pre-tax profit	219.1	217.9
Tax rate (%)	31.4	31.4
Tax expenses derived from pre-tax profit	68.8	68.4
Tax rate differential on income proportions subject to taxation outside of Germany	0.5	–0.3
Effect from unused losses carried forward	7.3	0.0
Taxes for previous years	1.0	0.2
Corporation tax modification	–10.1	9.7
Trade tax modification	1.0	0.9
Miscellaneous	–4.8	7.0
Reported taxation	**63.8**	**85.9**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

The losses incurred in the consolidated closed-end real estate fund, as well as losses incurred in conjunction with our withdrawal from Luxembourg, could not be used for tax purposes, since it was highly unlikely that taxable income would be generated in the future that could be offset against tax-deductible losses.

51 Income Statement by Measurement Category

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

Measurement category 31.12.2013 in €m	Loans and receiva-bles	Other financial instru-ments	Held-for-trading	Derivatives in hedging relation-ships	Available-for-sale	Other financial commit-ments	Other	Total
Net interest income								
Interest income	109.7	3.7			122.7			236.1
Interest expense						–69.3	–1.0	–70.3
Net fee income								
Fee income	24.3		2.0				739.4	765.7
Fee expenses	–1.3		–1.1				–362.2	–364.6
Net trading income			95.7					95.7
Income from financial assets					16.1			16.1
Net other income/expenses				28.7	–28.9		37.2	37.0
Impairments								
Net impairment and other credit risk provisions	–9.1						–1.8	–10.9
Income from financial assets					0.2			0.2
Total	123.6	3.7	96.6	28.7	110.1	–69.3	411.6	705.0

Measurement category 31.12.2012 in €m	Loans and receiva-bles	Other financial instru-ments	Held-for-trading	Derivatives in hedging relation-ships	Available-for-sale	Other financial commit-ments	Other	Total
Net interest income								
Interest income	120.0	5.2			128.5			253.7
Interest expense						–77.8	–0.2	–78.0
Net fee income								
Fee income	15.1		2.6				694.4	712.1
Fee expenses	–0.8		–4.3				–323.3	–328.4
Net trading income			161.8					161.8
Income from financial assets					11.8			11.8
Net other income/expenses				–28.1	28.0		–8.3	–8.4
Impairments								
Net impairment and other credit risk provisions							–0.9	–0.9
Income from financial assets					–2.7			–2.7
Total	134.3	5.2	160.1	–28.1	165.6	–77.8	361.7	721.0

Other Notes

52 Notes to the Cash Flow Statement

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

The payment transactions of the financial year are classified in three different categories: operating, investing and financing activities.

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

Cash and cash equivalents

As in the previous year, the cash and cash equivalents of € 1,133.7 million (2012 € 265.0 million) correspond to the cash reserve balance sheet item, which comprises cash in hand plus balances held with central banks. The cash and cash equivalents are denominated almost exclusively in euros. No major valuation effects resulting from exchange rates were to be taken into consideration.

Cash flows from operating activities

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

Consolidated net profit of € 155.3 million (2012: € 132.0 million) is the input figure for the cash flow statement. Gross cash flow of € 117.1 million (2012: € – 7.3 million), which is reported as a sub-total, shows the cash surplus from operating activities. The cash flows from operating activities also take into account the changes in funds employed in operations.

Cash flow from investing activities

Spending on the acquisition of property, plant and equipment totalled € 15.4 million in the 2013 financial year (2012: € 15.0 million). The sale of property, plant and equipment realised € 1.0 million (2012: € 1.3 million) for the Group. In the financial year under report, the sale and purchase of financial investments resulted in payments received of € 7.0 million net.

Cash flow from financing activities

Cash flow from financing activities includes the dividend of € 70.3 million for the 2012 financial year (previous year: € 70.3 million) paid by HSBC Trinkaus & Burkhardt AG in the year under report. Bullet subordinated capital resulted in outflows of € 7.6 million this year (2012: € 0.0 million).

53 Customer Groups

The segment reporting prepared by HSBC Trinkaus & Burkhardt in accordance with IFRS 8 provides readers of the statements with information on the sources of profit, growth and risk within individual segments and regions, and should help them gain a more differentiated picture of the economic performance of the Group. The segment reporting of the HSBC Trinkaus Group is based on contribution to profits and LoB (lines of business) accounting as a key component of the Management Information System (MIS). Both controlling vehicles serve as the Bank's central management and controlling tools, reflecting the organisational structure of the HSBC Trinkaus Group on a divisional basis.

The structure of segment reporting for the year 2013 as a whole complies with the new organisational structure for HSBC Trinkaus that is based on the HSBC Group. We have adjusted the previous year's figures accordingly.

The Bank differentiates between four Global Businesses – Global Private Banking (GPB), Commercial Banking (CMB), Global Banking & Markets (GB & M) and Asset Management (AM) – as well as Central.

Global Private Banking is largely identical to the former Private Banking division. In addition to pure asset-management and advisory services, it also includes special facilities such as advice on special asset structuring, execution of wills and Family office services.

Commercial Banking is responsible for the business with corporate SME customers. Aside from lending and deposit products, we offer a comprehensive domestic and foreign payment transactions service (payments and cash management). We also provide sophisticated specialised services such as interest-rate and currency management as well as the international business in conjunction with the HSBC Group.

In addition to the large international corporate customers and institutional clients, Global Banking & Markets also includes the Capital Financing and Markets activities. Apart from the lending business and investment banking, Capital Financing mainly includes the origination function on the primary market, while Markets comprises the distribution and trading activities for capital market products on the secondary market.

The Asset Management business is now reported separately, having been included in previous years in the Private Banking, Corporate Banking and Institutional Clients customer segments.

Following the withdrawal from Luxembourg, Central reports the non-recurring special effects as well as for the most part only the regulatory cost items and reconciliation items which exist between the aggregate of the four core segment results and the total amount between the respective sub-categories of the income statement.

Segment reporting by operating business division for 2013 and 2012* is as follows:

in €m		GPB	CMB	GB & M	AM	Central/ Consolida- tion	Total
Net interest income	2013	20.1	69.6	70.7	5.6	–0.2	165.8
	2012	25.4	68.0	72.4	5.8	4.1	175.7
Net loan impairment provision	2013	0.0	8.4	2.4	0.0	0.1	10.9
	2012	–0.2	0.6	0.8	0.0	–0.3	0.9
Net interest income after net loan impairment provision	2013	20.1	61.2	68.3	5.6	–0.3	154.9
	2012	25.6	67.4	71.6	5.8	4.4	174.8
Share of profit in associates	2013	0.0	0.1	0.2	0.0	0.0	0.3
	2012	–1.1	–1.2	–5.2	–0.6	0.0	–8.1
Net fee income	2013	68.5	44.3	246.9	41.4	0.0	401.1
	2012	70.9	38.8	231.5	42.5	0.0	383.7
Operating trading income	2013	4.3	7.1	87.4	2.2	–2.1	98.9
	2012	3.2	3.5	158.1	1.6	–3.6	162.8
Income after net loan impairment provision	2013	92.9	112.7	402.8	49.2	–2.4	655.2
	2012	98.6	108.5	456.0	49.3	0.8	713.2
Administrative expenses	2013	65.4	64.8	291.8	28.5	35.7	486.2
	2012	72.0	62.8	299.8	29.4	31.0	495.0
of which depreciation and amortisation	2013	0.8	1.2	2.3	0.2	21.8	26.3
	2012	1.1	0.7	1.7	0.2	18.6	22.3
Income from financial assets	2013	2.2	2.9	9.6	1.2	0.4	16.3
	2012	1.6	1.8	7.7	0.8	–2.8	9.1
Results from derivatives in the banking book	2013	0.0	0.0	0.0	0.0	–3.2	–3.2
	2012	0.0	0.0	0.0	0.0	–1.0	–1.0
Other net income	2013	3.7	2.1	10.0	0.9	20.3	37.0
	2012	2.6	3.2	15.5	1.5	–31.2	–8.4
Pre-tax profit	**2013**	**33.4**	**52.9**	**130.6**	**22.8**	**–20.6**	**219.1**
	2012	**30.8**	**50.7**	**179.4**	**22.2**	**–65.2**	**217.9**
Taxation	2013	10.4	16.6	41.0	7.1	–11.3	63.8
	2012	9.5	15.9	56.3	7.0	–2.8	85.9
Net profit for the year	**2013**	**23.0**	**36.3**	**89.6**	**15.7**	**–9.3**	**155.3**
	2012	**21.3**	**34.8**	**123.1**	**15.2**	**–62.4**	**132.0**
Change versus previous year in %		**8.0**	**4.3**	**–27.2**	**3.3**	**–85.1**	**17.7**

* Prior year's figures adjusted. The adjustments are explained in Note 18.

HSBC Trinkaus posted pre-tax profit of € 219.1 million, which was slightly higher than the adjusted prior-year figure. The Global Private Banking, Commercial Banking and Asset Management segments posted better pre-tax results. The result in Global Banking & Markets was lower on account of two one-time effects, but was in line with our forecast. As in the previous year, the 2013 result was influenced by non-recurring effects such as the withdrawal from Luxembourg and the creation or reversal of provisions for pending litigation, which explains above all other net income in Central.

2012 benefited from falling interest rates and higher turnover on the capital markets. This was as a result of the containment of the euro crisis after the announcement of the ECB's outright monetary transactions (OMT) programme. Under this programme, it will buy unlimited amounts, if necessary, of sovereign bonds of European crisis countries and flood the money markets with cheap liquidity through the ECB's two long-term refinancing operation (LTRO) offers. On the other hand, 2013 was defined by greater volatility on the financial markets after the announcement by the US Federal Reserve in May 2013 that it would reduce its purchases of US treasuries and mortgage bonds in the event of a sustained improvement on the labour market (tapering). The resulting higher yields on the bond markets and collapse of the price of gold, together with high inflows of funds from the emerging markets, led to doubts among many market participants over the future economic trend worldwide which was associated with a certain degree of reticence in their business activities.

The impact of these different frameworks was reflected in a lower result in the Global Banking & Markets segment, which also included the very high non-recurring proceeds from the subsequent increase in compensation in the course of the merger of two companies. Given that the other three core segments succeeded in improving on the previous year's results, despite the difficult market environment, the balanced nature of the business structure and the stability of the Bank's customer-oriented business model is demonstrated in this reporting year too.

All the same, the Global Banking & Markets segment generated the highest contribution to earnings. However, the marked increase in net fee income from capital increases and from the alternative-investment business as well as interest and commission income in the lending business at the same time as lower administrative expenses was not enough to offset the significant reduction in revenue in treasury and equity trading; this decline is attributable to the excess liquidity referred to above and the increased compensation. The growing business opportunities from the increasingly intensive cooperation with the HSBC Group play a major part in the improvement in interest and commission income.

Thanks to the mainly volume-related expansion of interest and commission income in lending and international business, the Commercial Banking segment operated successfully compared with the previous year. This more than compensated for the considerable margin-led decline in revenue in the deposit-taking business due to lower market interest rates at the short end and the increase in loan loss provisioning.

The Global Private Banking segment generated the highest percentage increase in earnings. Falling net interest income in the deposit-taking business on account of lower market interest rates at the short end could not be offset entirely by higher earnings from the asset and portfolio management business, as well as in the transaction-led securities business. The measures embarked on the previous year to reduce staff and administrative expenses made a decisive contribution to the improvement in earnings.

The Asset Management segment also slightly exceeded the previous year's result in adverse market conditions. The marginal decline in revenues was more than offset by the disproportionate reduction in administrative expenses.

Apart from the Commercial Banking segment, upon which the growth strategy is based, the administrative expenses in the other three core segments were reduced. This is the result, among other things, of the restructuring measures taken the year before to enhance efficiency, which reduces costs.

The segment results are broken down into net interest, net fee and net trading income. Administrative expenses are allocated to the relevant segment in as far as possible.

		GPB	CMB	GB&M	AM	Central / Consolidation	Total	Adjustments	As at balance sheet date
Cost-efficiency ratio in %	2013	66.2	51.4	68.7	55.6	0.0	67.9	0.0	67.9
	2012*	70.2	55.0	62.5	57.0	0.0	69.4	0.0	69.4
Assets** in €m	2013	509.0	2,673.0	6,721.4	0.0	9,733.7	19,637.1	172.6	19,809.7
	2012*	584.0	2,406.0	7,105.1	0.0	10,598.1	20,693.2	−645.4	20,047.8
Liabilities** in €m	2013	2,790.0	4,326.0	7,034.3	0.0	5,186.0	19,336.3	−1,508.7	17,827.6
	2012*	3,104.0	3,710.0	6,321.1	0.0	6,993.5	20,128.6	−2,026.6	18,102.0
Risk items for mandatory inclusion** in €m	2013	432.0	3,738.0	4,388.0	123.0	1,374.2	10,055.2	1,069.8	11,125.0
	2012	607.0	2,942.0	3,467.0	126.0	2,346.0	9,487.8	−249.8	9,238.1
Attributable shareholders' equity** in €m	2013	118.2	448.8	513.8	87.3	161.5	1,329.6	124.1	1,453.7
	2012*	135.7	369.2	421.7	87.6	273.2	1,287.4	97.8	1,385.2
Employees	2013	389	344	1,664	130	0	2,527	0	2,527
	2012	499	332	1,577	120	0	2,528	0	2,528
Return on equity before taxes (%)	2013	28.3	11.8	25.4	26.1	0.0	16.5	0.0	16.5
	2012*	22.7	13.7	42.5	25.3	0.0	17.1	0.0	17.1

* Prior year's figures adjusted. The adjustments are explained in Note 18.
** Annual average

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

The cost-efficiency ratio is a measure of the segments' cost efficiency and reveals the ratio of total administration expenses to income before net loan impairment provision. This ratio improved in the Global Private Banking, Asset Management and Commercial Banking segments. This was due to more than proportionate revenue growth compared to the growth in costs in Commercial Banking and costs declining more than proportionately compared to the reduction in revenues in Global Private Banking and Asset Management. On the other hand, the cost-efficiency ratio in the Global Banking & Markets segment increased year-on-year despite lower costs as the extraordinarily high revenues from the previous year in this segment could not be repeated this year. The cost-efficiency ratio in the Group improved further from 69.4 % the year before to 67.9 % in 2013 even though the special factors described above weakened this positive development on the revenue and cost side.

The capital resources of the operating segments are made up of a base amount, which is allocated to each segment, plus a premium calculated according to the amount of mandatory risk items in a given segment.

The assignment of assets, liabilities, risk assets and balance sheet equity follows the assignment of customers to each segment according to the Bank's management information system.

In accordance with the growth strategy, the Commercial Banking and Global Banking & Markets segments posted increases in risk items for mandatory inclusion. These remained virtually constant in Asset Management on the other hand, while falling sharply in Global Private Banking.

The results of the various companies' activities, which are classified geographically, are illustrated below. Segment allocation is determined by the registered office of the respective Group company:

in €m		Germany	Luxembourg	Remainder	Total
Pre-tax profit	2013	251.1	–32.1	0.1	219.1
	2012*	191.7	26.2	0.0	217.9

* Prior year's figures adjusted. The adjustments are explained in Note 18.

Long-term segment assets amounted to € 223.9 million (2012: € 251.6 million) during the year under report, with Germany accounting for € 223.3 million (2012: € 245.1 million) thereof and the Luxembourg region for € 0.6 million (2012: € 6.5 million).

54 Measurement Classes

The following tables provide an overview of the measurement classes underlying each balance sheet item:

Assets as at 31.12.2013 in €m					
Measurement class	**At amortised cost**		**At fair value**		**Total**
Measurement category	**Loans and receivables**	**Other financial assets**	**Held-for-trading**	**Available-for-sale**	
Cash reserve		1,133.7			1,133.7
Loans and advances to banks	1,643.8				1,643.8
Loans and advances to customers*	4,824.2				4,824.2
Trading assets			6,753.6		6,753.6
Financial assets		39.1		5,085.7	5,124.8
Other financial instruments	5.6	19.0			24.6
Total financial instruments	**6,473.6**	**1,191.8**	**6,753.6**	**5,085.7**	**19,504.7**

Liabilities as at 31.12.2013 in €m			
Measurement class	**At amortised cost**	**At fair value**	**Total**
Measurement category	**Other liabilities**	**Held-for-trading**	
Deposits by banks	1,269.4		1,269.4
Customer accounts**	12,219.1		12,219.1
Certificated liabilities	10.0		10.0
Trading liabilities		4,099.9	4,099.9
Subordinated capital	345.7		345.7
Other financial instruments	103.7		103.7
Total financial instruments	**13,947.9**	**4,099.9**	**18,047.8**

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

Assets as at 31.12.2012 in €m***					
Measurement class	**At amortised cost**		**At fair value**		**Total**
Measurement category	**Loans and receivables**	**Other financial assets**	**Held-for-trading**	**Available-for-sale**	
Cash reserve		265.0			265.0
Loans and advances to banks	1,551.2				1,551.2
Loans and advances to customers*	4,529.1				4,529.1
Trading assets			8,261.5		8,261.5
Financial assets		45.6		5,022.7	5,068.3
Other financial instruments	23.2	7.7			30.9
Total financial instruments	6,103.5	318.3	8,261.5	5,022.7	19,706.0

Liabilities as at 31.12.2012 in €m***			
Measurement class	**At amortised cost**	**At fair value**	**Total**
Measurement category	**Other liabilities**	**Held-for-trading**	
Deposits by banks	1,219.5		1,219.5
Customer accounts**	11,880.4		11,880.4
Certificated liabilities	10.0		10.0
Trading liabilities		4,721.9	4,721.9
Subordinated capital	353.4		353.4
Other financial instruments	153.0		153.0
Total financial instruments	13,616.3	4,721.9	18,338.2

* Net loan impairment provision is reported by means of direct deduction from loans and advances to customers.
** Our customer deposits are used in part internally to refinance our trading divisions.
*** Prior year's figures adjusted. The adjustments are explained in Note 18.

55 Fair Value of Financial Instruments

The fair value in accordance with IFRS is the price that would be received or paid when an asset is sold or a liability transferred within the scope of an arm's-length transaction between market participants on the valuation date. The fair value concept is therefore based on a hypothetical transaction on the valuation date. Due to the orientation to representative market participants, the fair value must abstract from an undertaking's individual assumptions. After determining the object to be assessed, which equates regularly to an individual financial asset or an individual financial liability, the main market is determined. This is the market with the largest trading volume and the highest market activity for the valuation object. When determining the main market, all information that is accessible without any excessive effort is taken into consideration. As many relevant observable input factors as possible are taken into account when selecting suitable valuation methods. Based on the origins of the input factors used, three levels are differentiated in the fair value hierarchy.

Assessments by the management are necessary when calculating the fair value. The areas for which management decisions are necessary to a significant extent are identified, documented and reported to senior management within the scope of valuation controls and the monthly reporting cycles.

Management assessments are only required to a minor extent to determine the fair value of financial instruments, whose prices are quoted in an active market. Similarly, only a small number of subjective measurements or assessments for financial instruments are necessary, which are measured using models that are typical for the industry and whose input parameters originate from active markets.

The necessary measure of subjective measurement and assessment by the management are more important for those financial instruments that are measured using special and complex models and where at least one material input parameter is not observable. The selection and application of appropriate parameters, assumptions and model techniques must be assessed by the management.

Remeasurements are an integral part of the process for determining the fair value that forms the basis for assessments. These take into consideration above all the measurement of credit and model risk, as well as taking reasonable account of market liquidity. These remeasurements are not calculated on the basis of individual transactions but on a net basis in accordance with the steering committee.

Key valuation issues are discussed by the Bank's Valuation Committee.

Risk Control is responsible, among other things, for the fair value measurements of financial instruments and reports to the Chief Financial Officer in this context.

Risk Control carries out the following controls by:

- verifying observable prices
- validating the plausibility of model valuations
- reviewing and releasing new valuation models and changing existing models
- adjusting to changed input parameters and comparing model results and observable market transactions
- analysing and examining key measurement fluctuations
- verifying significant factors that are not observable on the market, and validating the plausibility of instruments classified as level 3.

Risk Control assesses information provided by third parties, such as price offers or pricing services that are used for pricing, to ensure such external information meets the qualitative requirements.

There were no significant changes to the valuation methods used compared with 31 December 2012.

The provisions of IFRS 13 shall be applied for the first time in the financial year. The interpretations of the provision that have emerged in recent months vary in part from the previous interpretation of the distinction between the three fair value levels. For this reason, we have adjusted the previous year's figures to the current interpretation in order to ensure comparability of the periods shown.

The following overviews show the allocation of the items measured at fair value to the fair value levels.

31.12.2013 in €m	Level 1	Level 2	Level 3	Measured at cost	Total
Trading assets	**1,381.9**	**5,318.9**	**52.8**	**0.0**	**6,753.6**
Bonds and other fixed-income securities	0.0	2,484.0	0.0	0.0	2,484.0
Equities and other non-fixed-income securities	1,340.6	0.0	52.8	0.0	1,393.4
Tradable receivables	0.0	1,420.3	0.0	0.0	1,420.3
Positive market value of derivatives	41.3	1,408.6	0.0	0.0	1,449.9
of which interest-rate instruments	0.0	779.1	0.0	0.0	779.1
of which currency-related instruments	0.0	348.5	0.0	0.0	348.5
of which equity / index-based transactions	41.3	281.0	0.0	0.0	322.3
Derivatives in hedging relationships	0.0	6.0	0.0	0.0	6.0
Financial assets	**156.0**	**4,910.0**	**19.7**	**39.1**	**5,124.8**
Bonds and other fixed-income securities	0.0	4,693.7	0.0	0.0	4,693.7
Equities and other non-fixed-income securities	29.9	0.0	0.0	0.0	29.9
Investment certificates	95.5	0.0	0.0	0.0	95.5
Promissory-note loans	0.0	209.1	0.0	0.0	209.1
Investments	30.6	7.2	19.7	39.1	96.6
Trading liabilities	**61.6**	**3,942.6**	**95.7**	**0.0**	**4,099.9**
Promissory-note loans, bonds, certificates and warrants	0.0	2,028.8	85.7	0.0	2,114.5
Delivery obligations arising from securities sold short	53.1	0.0	0.0	0.0	53.1
Negative market value of derivatives	8.5	1,862.8	10.0	0.0	1,881.3
of which interest-rate instruments	0.7	863.6	0.0	0.0	864.3
of which currency-related instruments	0.1	348.5	0.0	0.0	348.6
of which equity / index-based transactions	7.7	650.7	10.0	0.0	668.4
Derivatives in hedging relationships	0.0	46.9	0.0	0.0	46.9
Derivatives held in the banking book	0.0	4.1	0.0	0.0	4.1

31.12.2012* in €m	Level 1	Level 2	Level 3	Measured at cost	Total
Trading assets	**763.1**	**7,425.1**	**73.3**	**0.0**	**8,261.5**
Bonds and other fixed-income securities	0.0	3,846.8	6.4	0.0	3,853.2
Equities and other non-fixed-income securities	741.0	0.0	66.9	0.0	807.9
Tradable receivables	0.0	1,770.9	0.0	0.0	1,770.9
Positive market value of derivatives	22.1	1,807.4	0.0	0.0	1,829.5
of which interest-rate instruments	0.0	1,240.8	0.0	0.0	1,240.8
of which currency-related instruments	0.0	354.9	0.0	0.0	354.9
of which equity / index-based transactions	22.1	211.7	0.0	0.0	233.8
Derivatives in hedging relationships	0.0	0.0	0.0	0.0	0.0
Financial assets	**147.1**	**4,855.5**	**20.1**	**45.6**	**5,068.2**
Bonds and other fixed-income securities	1,030.8	4,612.9	0.0	0.0	4,612.9
Equities and other non-fixed-income securities	38.9	0.0	0.0	0.0	38.9
Investment certificates	80.2	0.0	0.0	0.0	80.2
Promissory-note loans	0.0	235.6	0.0	0.0	235.6
Investments	28.0	7.0	20.1	45.6	100.7
Trading liabilities	**51.5**	**4,611.9**	**58.5**	**0.0**	**4,721.9**
Promissory-note loans, bonds, certificates and warrants	0.0	2,136.7	58.5	0.0	2,195.2
Delivery obligations arising from securities sold short	41.5	0.0	0.0	0.0	41.5
Negative market value of derivatives	10.0	2,398.3	0.0	0.0	2,408.3
of which interest-rate instruments	0.0	1,554.0	0.0	0.0	1,554.0
of which currency-related instruments	0.0	358.3	0.0	0.0	358.3
of which equity / index-based transactions	10.0	486.0	0.0	0.0	496.0
Derivatives in hedging relationships	0.0	70.4	0.0	0.0	70.4
Derivatives held in the banking book	0.0	6.5	0.0	0.0	6.5

* Prior year's figures adjusted. The adjustments are explained in Note 18.

The three fair value levels provided by IFRS 13 can be distinguished by the input factors used for the measurement. Where the measurement is based on unadjusted quoted prices on active markets for identical financial instruments, the fair value is allocated to level 1.

The fair value is allocated to level 2 if input factors that are directly or indirectly observable on the market are included in the measurement that cannot be allocated to level 1. The entire fair value may be allocated to level 2, provided all significant input factors for the measurement process are observable.

If unobservable market parameters are included in the measurement, classification is in level 3.

The measurement models and parameters for derivatives and certificates (level 2) are derived from the following overview. The measurement of other transactions in level 2 is by means of the present value method.

Product class	Product	Valuation model	Key measurement parameters
Equity products	Futures	Analytical formula	Price of the underlying instrument, interest rates
	European plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments
	American plain vanilla options	Finite Differences	Price of the underlying instrument, interest rates, volatility, dividend payments
	European quanto options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	American quanto options	Finite Differences	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Barrier options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Asian options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
	Multi-underlying options	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates, dividend payments
	Index certificates	Black-Scholes	Price of the underlying instrument, dividend payments
	Discount certificates	Black-Scholes	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Bonus certificates	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments, correlations
	Express certificate	Analytical formula	Price of the underlying instrument, interest rates, volatility, dividend payments
Interest-rate products	Plain vanilla swaps	Present value method	Interest rates
	Exotic swaps	Analytical formula	Interest rates, volatility
	Plain vanilla swaptions	Analytical formula	Interest rates, volatility
	Exotic swaptions	Analytical formula	Interest rates, volatility
	Plain vanilla caps, floors, collars	Black-Scholes	Interest rates, volatility
	Futures	Present value method	Interest rates
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates
Currency Products	Plain vanilla options	Black-Scholes	Price of the underlying instrument, interest rates, volatility
	Exotic options	Black-Scholes	Price of the underlying instrument, interest rates, volatility, correlation
	FX swaps	Present value method	Price of the underlying instrument, interest rates
	Knock-out certificates	Analytical formula	Price of the underlying instrument, interest rates

The fair value of some financial instruments is calculated using valuation models, where at least one significant input parameter cannot be observed on the market (level 3). These instruments include, amongst other things, equity certificates with options on two or more underlyings (multi underlying certificates) or currency-hedged certificates (quanto certificates), which can be measured using an analytical Black-Scholes approach. As a rule, parameters for the correlation between the individual underlyings or the underlying and the foreign currency are not observable on the market. In addition, we also classify illiquid equity investments in level 3.

31.12.2013	Fair value (in €m)	Measurement method	Significant unobservable parameters (level 3)	Uncertainty interval margin (in €m)	Range of estimates for unobservable input factors
Trading assets					
Illiquid equity instruments	52.8	Modified net asset value method	–	–2.6 to 2.6	–5 to 5 % price change
Financial assets					
Illiquid equity instruments	19.7	Modified net asset value method	–	–0.9 to 0.9	–5 to 5 % price change
Trading liabilities					
Asian options	33.3	Analytical Black-Scholes approach	Volatility	–0.3 to 0.3	20 to 23 % (21 %)
Multi-underlying certificates	32.4	Analytical Black-Scholes approach	Correlation between underlyings	–0.4 to 0.4	21 to 73 % (52 %)
Currency-hedged certificates	30.0	Analytical Black-Scholes approach	Correlation between underlyings	0.0 to 0.0	–49 to 1 % (–21 %)

31.12.2012	Fair value (in €m)	Measurement method	Significant unobservable parameters (level 3)	Uncertainty interval margin (in €m)	Range of estimates for unobservable input factors
Trading assets					
Illiquid equity instruments	66.9	Modified net asset value method	–	–3.3 to 3.3	–5 to 5 % price change
Credit-linked notes	6.4	Discounted cash flow approach	Credit spread	–0.4 to 0.4	65 to 380 % (181 %)
Financial assets					
Illiquid equity instruments	20.1	Modified net asset value method	–	–0.9 to 0.9	–5 % to 5 % price change
Trading liabilities					
Asian options	24.4	Analytical Black-Scholes approach	Volatility	–0.5 to 0.5	15 to 28 % (20 %)
Currency-hedged certificates	34.1	Analytical Black-Scholes approach	Correlation between underlyings	0.0 to 0.0	–4 to 39 % (15 %)

The uncertainty interval margin for correlation-dependent certificates that require a correlation that is not observable on the market is calculated by shifting the estimated correlations by + 10 % or – 10 %. Both the equity/equity correlations as well as the equity/FX correlations are shifted in the same way. The long-term volatility spread is derived from the shift in the volatility of the underlying. The deflection of the volatility is up to +/– 2 %.

The portfolio of level 3 financial instruments developed as follows in the year under report:

in €m	Trading assets	Financial assets	Trading liabilities
01.01.2013	**73.3**	**20.1**	**58.5**
Changes in the carrying amount			
recognised in the income statement	1.7	0.1	11.4
recognised directly in equity	0.0	0.3	0.0
Purchases	0.0	0.0	10.0
Issuance	0.0	0.0	62.2
Sales	0.0	0.0	10.7
Maturities	18.8	0.0	35.7
Transfers to level 3	0.0	0.0	0.0
Transfers out of level 3	0.0	0.0	0.0
31.12.2013	**52.8**	**19.7**	**95.7**

in €m	Trading assets	Financial assets	Trading liabilities
01.01.2012	**96.9**	**30.2**	**48.9**
Changes in the carrying amount			
recognised in the income statement	2.4	4.1	12.2
recognised directly in equity	0.0	0.0	0.0
Purchases	0.0	0.0	0.0
Issuance	0.0	0.0	36.9
Sales	9.0	0.0	12.0
Maturities	12.2	6.0	31.4
Transfers to level 3	0.0	0.0	4.9
Transfers out of level 3	0.0	0.0	1.0
31.12.2012	**73.3**	**20.1**	**58.5**

A transfer out of level 1 to level 2 takes place if prices on active markets are no longer available for identical financial instruments. Such a transfer is necessary, for example, if market activity is low in the respective financial instrument. If at least one significant market parameter is no longer observable in the level 2 measurement, a transfer is made out of level 2 to level 3.

Level 1 instruments were not reclassified as level 2 during the period under report, neither were level 2 instruments transferred to level 1.

Transfers out of level 3 are due to the reason for the uncertainty (volatility and correlation) being objectified during the period under report. Level 3 instruments held at the end of the reporting period include a measurement loss of € 22.5 million (2012: € 12.2 million).

Due to the short term maturities for large parts of the loans and advances and liabilities in the business with customers and banks, the difference between fair value and present value is often immaterial for this item. The differences between present values and fair values are derived from the following table:

in €m	31.12.2013		31.12.2012	
	Present value	Fair value	Present value	Fair value
Assets				
Loans and advances to banks	1,643.8	1,653.7	1,551.2	1,551.2
Loans and advances to customers (after loan loss allowance)	4,824.2	4,795.8	4,529.1	4,529.1
Liabilities				
Deposits by banks	1,269.4	1,269.6	1,219.5	1,219.5
Customer accounts	12,219.1	12,243.8	11,880.4	11,926.3
Certificated liabilities	10.0	9.0	10.0	8.7
Subordinated capital	345.7	375.5	353.4	410.7

The fair value of these items is calculated using the present-value method. As the credit spread changes on the market are unobservable, these are classified in level 3. As in the previous year, the present values of the contingent liabilities of € 1,621.4 million (2012: € 1,805.6 million) and irrevocable loan commitments of € 6,109.4 million (2012: € 5,253.7 million) equate to their fair value.

The following table shows the financial instruments for which no price is traded on an active market and their fair values cannot be reliably calculated with the standard market measurement models. These financial instruments are measured on the basis of the acquisition costs, taking into account the necessary write-downs. These are mainly partnerships or unlisted public limited companies.

in €m	31.12.2013	31.12.2012
	Present value	Present value
Partnerships	15.3	15.7
Holdings in unlisted public limited companies	23.8	29.9
Total	39.1	45.6

Shares in these companies were not disposed of during the year under report (2012: € 0.0 million). The Bank has no intention to dispose of partnerships at this point in time.

56 Day-1 Profit or Loss

Financial assets in Global Markets measured on the basis of an internal model, where at least one key measurement parameter is unobservable on the market, can be subject to a day-1 profit or loss. The day-1 profit or loss is determined as the difference between the theoretical price and the price actually traded.

The day-1 profit or loss developed as follows during the year under report:

In €m	2013	2012
As at 01.01	0.9	2.2
New business	2.1	0.9
Day-1 profit or loss recognised in the income statement	–1.2	–2.2
of which positions closed out	–0.6	–2.1
of which matured transactions	–0.6	–0.1
of which observable market parameters	0.0	0.0
As at 31.12	1.8	0.9

57 Offsetting of Financial Assets and Financial Liabilities

The Offsettable financial assets or those that are subject to an enforceable netting framework agreement or similar agreement are calculated as follows:

					Amounts not offset in the balance sheet		
in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial assets reported in the balance sheet (net)	Financial instruments	Cash collateral	Net amount
31.12.2013	Derivatives	1,455.9	0.0	1,455.9	790.0	236.1	429.8
31.12.2012	Derivatives	1,829.5	0.0	1,829.5	1,182.7	150.6	496.2

The offsettable financial assets or those that are subject to an enforceable netting framework agreement or similar agreement are calculated as follows:

					Amounts not offset in the balance sheet		
in €m		Financial assets (gross)	Offset reported amounts (gross)	Financial assts reported in the balance sheet (net)	Financial instruments	Cash collateral	Net amount
31.12.2013	Derivatives	1,932.3	0.0	1,932.3	790.0	223.0	869.3
31.12.2012	Derivatives	2,485.2	0.0	2,485.2	1,182.7	417.9	474.6

Loans and advances as well as liabilities in conjunction with our repurchase agreements and securities lending transactions were not offset (cf. Note 13).

58 Holdings in Foreign Currency

As at 31 December 2013, assets denominated in a foreign currency were valued at € 1,773.0 million (2012: € 1,552.8 million) and the corresponding liabilities at € 2,336.7 million (2012: € 3,022.6 million). As in previous years, the bulk of these assets and liabilities were in US dollars.

59 Derivatives Business

We chiefly employ derivative financial instruments in our business with clients. We assess the resultant open items individually in order to deploy them in such a way as to generate profits. Reporting on transactions with derivatives in accordance with section 36 of the German Accounting Directive for Bank and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), the Bank follows the recommendations of the Accounting Committee of the German Federal Association of Banks (Bundesverband deutscher Banken e. V. – BdB). In accordance with the international standard, the market values stated reflect the replacement costs on trading activities in the event of counterparty default, regardless of any netting agreements. As there is no counterparty risk on exchange-traded derivatives, the table below does not include the market values of these derivatives.

Breakdown of the derivatives business by nominal amount

in €m		Nominal amounts with a residual term of			Nominal amounts	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2013	Total 2012
OTC products	Interest-rate swaps	4,442	8,610	6,848	19,900	22,174
	Interest-rate options	901	1,442	958	3,301	3,071
	Forward transactions	749	795	70	1,614	1,240
Exchange-listed products	Interest-rate futures	2,012	1,291	0	3,303	243
	Interest-rate options	159	376	146	681	853
Interest-rate transactions		**8,263**	**12,514**	**8,022**	**28,799**	**27,581**
OTC products	Foreign-exchange forwards	22,498	2,065	0	24,563	30,866
	Cross currency swaps	62	71	176	308	650
	Foreign-exchange options	2,233	89	0	2,322	1,818
Foreign-exchange-based transactions		**24,793**	**2,224**	**176**	**27,193**	**33,334**
OTC products	Forward transactions	0	4	0	4	91
	Equity/index options	11	30	0	41	83
	Equity swaps	6	29	0	35	49
Exchange-listed products	Equity/index futures	880	8	0	887	474
	Equity/index options	2,646	2,406	295	5,348	4,575
Equity/index-based transactions		**3,543**	**2,477**	**295**	**6,315**	**5,271**
Total financial derivatives		**36,599**	**17,215**	**8,493**	**62,307**	**66,187**

Breakdown of the derivatives business by market value

in €m		Positive market values with a residual term of			Positive market values		Negative market values	
		up to 1 year	over 1 year up to 5 years	over 5 years	Total 2013	Total 2012	Total 2013	Total 2012
OTC products	Interest-rate swaps	6	229	479	714	1,145	813	1,493
	Interest-rate options	14	14	11	39	75	42	123
	Forward transactions	13	12	6	31	1	55	8
Interest-rate transactions		33	255	496	784	1,220	910	1,624
OTC products	Foreign-exchange forwards	204	95	0	299	320	302	328
	Cross currency swaps	3	8	2	13	19	13	19
	Foreign-exchange options	33	3	0	36	16	37	18
Foreign-exchange-based transactions		240	106	2	348	355	352	365
OTC products	Forward transactions	0	1	0	1	0	4	18
	Equity/index options	1	4	0	5	16	23	14
	Equity swaps	0	3	0	3	3	1	1
Equity/index-based transactions		1	8	0	9	20	28	33
Total financial derivatives		274	369	498	1,141	1,595	1,290	2,022

Hedging instruments

HSBC Trinkaus uses derivatives (interest-rate swaps) to hedge against market interest-rate risk on financial assets within the scope of its hedge accounting. This hedging relationship resulted in positive market values of € 6.0 million (2012: € 0.0 million) as at 31 December 2013 and negative market values of € 46.9 million (2012: € 70.4 million).

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

Profit and loss in €m	2013	2012
From hedging instruments	28.7	–28.1
From underlying transactions	–28.9	28.0

60 Contingent Liabilities and Other Obligations

in €m	31.12.2013	31.12.2012
Contingent liabilities on guarantees and indemnity agreements	1,621.4	1,805.6
Irrevocable loan commitments	6,109.4	5,253.7
Total	7,730.8	7,059.3

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

Our liability to make further contributions arising from our interest in Liquiditäts-Konsortialbank GmbH was also unchanged, at € 3.7 million. In addition, we are also contingently liable pro rata for fulfilment of the additional funding obligations of other partners belonging to the BdB.

Obligations from lease agreements (incl. rental and lease contracts) amounted to € 48.9 million (2012: € 101.3 million) as at the balance sheet date. The decline was largely due to the withdrawal from Luxembourg.

in €m	31.12.2013	31.12.2012
Up to 1 year	9.9	24.0
Over 1 year up to 5 years	23.6	43.7
Over 5 years	15.4	33.6
Total commitments arising from leasing and rental contracts	**48.9**	**101.3**

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

61 Assets Pledged as Collateral

Securities with a nominal value of € 611.3 million (2012: € 233.6 million) were deposited as collateral for transactions on Eurex and for securities-lending operations.

Bonds with a nominal value of € 4,000.0 million (2012: € 4,801.1 million) were available for use as collateral for peak funding facilities on the balance sheet date.

62 Trust Activities

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

in €m	31.12.2013	31.12.2012
Trust assets	**196.6**	**248.2**
Loans and advances to banks	54.5	90.9
Loans and advances to customers	0.0	5.6
Investments	142.1	151.7
Trust liabilities	**196.6**	**248.2**
Deposits by banks	0.0	0.0
Customer accounts	196.6	248.2

63 Participating Interests

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

Company	Registered office	Percentage share of issued share capital in %	Equity held in the company in € 000	Net profit for 2013 in € 000
Banks and near-bank entities				
HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH	Düsseldorf	100.0	117,485	0*
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	100.0	108,178	−22,196
HSBC Trinkaus Investment Management Ltd.	Hong Kong	100.0	587	−15
Internationale Kapitalanlagegesellschaft mbH	Düsseldorf	100.0	24,000	0*
HSBC Trinkaus Investment Managers S.A.	Luxembourg	100.0	1,945	−4,716
HSBC INKA Investment-AG TGV**	Düsseldorf	100.0	1,939	−5
HSBC Transaction Services GmbH	Düsseldorf	100.0	15,000	0*
HSBC Trinkaus Family Office GmbH	Düsseldorf	100.0	25	0*
HSBC Trinkaus Gesellschaft für Kapitalmarktinvestments OHG***	Düsseldorf	10.0	550,700	7,676
HSBC Global Asset Management (Deutschland) GmbH	Düsseldorf	100.0	5,001	0*
HSBC Global Asset Management (Österreich) GmbH****	Vienna	100.0	418	58
HSBC Global Asset Management (Switzerland) AG***	Zurich	50.0	1,464	8
Companies with a special mission				
HSBC Trinkaus Real Estate GmbH	Düsseldorf	100.0	167	0*
HSBC Trinkaus Immobilien Beteiligungs-KG	Düsseldorf	100.0	3,010	157
Trinkaus Europa Immobilien-Fonds Nr. 3 GmbH	Düsseldorf	100.0	56	4
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	Düsseldorf	100.0	31	5
Trinkaus Canada 1 GP Ltd.****	Toronto	100.0	−32	−33
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand GmbH	Düsseldorf	100.0	23	2
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Düsseldorf	100.0	46	17
Trinkaus Immobilien-Fonds Geschäftsführungs-GmbH	Düsseldorf	100.0	24	0
Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH	Düsseldorf	100.0	500	0*
Trinkaus Private Equity Management GmbH	Düsseldorf	100.0	1,398	1,275
HSBC Trinkaus Private Wealth GmbH	Düsseldorf	100.0	261	0*

Company	Registered office	Percentage share of issued share capital in %	Equity held in the company in € 000	Net profit for 2013 in € 000
Real estate companies				
Grundstücksgesellschaft Trinkausstraße KG	Düsseldorf	100.0	2,762	–4,135
Other companies				
HSBC Trinkaus Consult GmbH****	Düsseldorf	100.0	6,218	–284
Trinkaus Private Equity Verwaltungs GmbH	Düsseldorf	100.0	37	7

* Profit-transfer agreement
** Equities issued by private companies
*** Consolidated at equity
**** Figures as at 31 December 2012

HSBC Trinkaus also holds a 26.6 % stake in sino AG, Düsseldorf. As at 30 September 2013, the equity held in the company was € 4,710,000 and net loss amounted to € 35,000.

64 Releasing Subsidiaries from the Disclosure Requirement in Accordance with sections 264 (3) and 264b of the German Commercial Code (HGB)

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

- HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen mbH, Düsseldorf
- HSBC Trinkaus Family Office GmbH, Düsseldorf
- HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
- Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
- HSBC Transaction Services GmbH, Düsseldorf
- HSBC Trinkaus Real Estate GmbH, Düsseldorf
- HSBC Trinkaus Private Wealth GmbH, Düsseldorf
- Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf
- Trinkaus Australien Immobilien-Fonds Nr. 1 Brisbane GmbH und Co. KG, Düsseldorf

65 Letter of Comfort

HSBC Trinkaus & Burkhardt AG undertakes to ensure that all fully-consolidated companies of the Group – HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg, Internationale Kapitalanlagegesellschaft mbH, Düsseldorf, HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf and Gesellschaft für industrielle Beteiligungen und Finanzierungen mbH, Düsseldorf – are in a position to fulfil their contractual obligations.

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

66 Staff

Annual average	2013	2012
Staff employed abroad	203	217
Staff employed in Germany	2,325	2,329
Total (including trainees)	**2,528**	**2,546**
of which female members of staff	1,084	1,107
of which male members of staff	1,444	1,439

67 Auditors' Fees

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

in €m	2013	2012
Audits	1.2	1.0
Other audit or valuation services	0.1	0.2
Tax advisory services	0.1	0.1
Other services	0.5	0.1
Total	**1.9**	**1.4**

68 Business Relationships with Companies and Persons Defined as Related Parties

We foster intensive business relationships with other HSBC companies. These business relationships relate firstly to normal bank transactions, which are usually unsecured. Derivative transactions are generally concluded under master agreements that allow netting and are secured within the scope of Credit Support Annex (CSAs). On the other hand, there are cooperation and agency agreements with various companies of the HSBC Group. Overall, the consolidated income statement includes € 118.8 million (2012: 117.8 million) in income and € 34.4 million (2012: € 22.3 million) in expenses for transactions with HSBC Holdings plc, London, and its affiliated companies. In the 2013 financial year, interest income from other HSBC companies amounted to € 17.6 million (2012: 24.54 million), while interest expense stood at € 3.9 million (2012: € 5.2 million).

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

	Affiliated companies		Associated companies	
in €m	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Loans and advances to banks	927.8	586.7	0.0	0.0
Loans and advances to customers	43.7	0.0	77.1	57.1
Total	**971.5**	**586.7**	**77.1**	**57.1**

Deposits by banks and customer accounts include the following amounts:

	Affiliated companies		Associated companies	
in €m	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Deposits by banks	681.8	628.1	0.0	0.0
Customer accounts	31.0	28.0	228.7	9.8
Total	**712.8**	**656.1**	**228.7**	**9.8**

Trading assets/liabilities and financial assets include the following transactions concluded with affiliated companies:

	Securities		Derivatives	
in €m	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Trading assets	0.0	0.0	652.2	875.6
Trading liabilities	0.0	0.0	667.7	1,735.7
Financial assets	736.0	738.4	0.0	0.0

69 Share-Based Payments

Breakdown of the share option scheme

Type	Day of granting	Fair value per option right on the day of granting in €	Exercise price in €	Number of option rights 31.12.13	Number of option rights 31.12.2012
SAYE 2008 (5Y)	01.08.2008	2.77	7.55	–	7,841
SAYE 2009 (5Y)	01.08.2009	1.50	3.64	358,440	381,399
SAYE 2010 (3Y/5Y)	01.08.2010	1.90/2.01	6.07	9,146	67,272
SAYE 2011 (3Y/5Y)	01.08.2011	1.53/1.61	5.80	76,109	82,026
SAYE 2012 (1Y/3Y/5Y)	01.08.2012	1.30/1.29/1.30	5.35	151,911	270,705
Total				595,606	809,243

The fair value of the options is calculated uniformly within the Group by HSBC Holdings plc. On the day on which the options are granted, the fair value is calculated using the Lattice model, which is based on the assumptions of the Black-Scholes model. The share options are generally exercised by staff on August 1 of a financial year. The options held by staff that availed of the right to exercise the options at a later stage are of minor importance.

The HSBC share price used for the immediate exercise of the option rights on 1 August 2013 was € 8.65 (1 August 2012: € 6.82).

Development of the share option scheme

	Type	Number of option rights	Weighted exercise price in €
Balance as at 01.01.2013	SAYE 2008 – 2012	809,243	4.67
Exercised in the course of the year	SAYE 2008 (5Y) / SAYE 2010 (3Y) / SAYE 2012 (1Y)	179,707	5.68
Forfeited in the course of the year	SAYE 2009 – 2012	33,930	4.29
Balance as at 31.12.2013		595,606	4.39
of which outstanding option rights		589,843	
of which exercisable option rights		5,763	

The weighted average remaining term to maturity of option rights still outstanding as at 31 December 2013 was 406 days (2012: 598 days). The staff expenses to be taken into account in the year under report are € 0.3 million (2012: € 0.5 million).

Performance-related remuneration for staff and members of the Management Board

As in the previous year, performance-related remuneration for employees and Management Board members was partially carried out by means of assigning shares of HSBC Holdings plc. Shares in the amount of € 13.6 million (2012: € 13.9 million) were assigned for the 2013 financial year. The shares will be transferred on a pro rata basis for the financial years 2014, 2015, 2016 and 2017.

The total value of capital reserves for share-based payments at the end of the reporting period amounts to € – 1.7 million (2012: € – 7.5 million). The corresponding liability for performance-related compensation payable for subsequent years amounts to € 43.5 million (2012: € 62.3 million).

70 Statement on the German Corporate Governance Code Pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of the Bank have submitted their statement on the recommendations of the Commission of the German Corporate Governance Code and made this permanently available to the public on the HSBC Trinkaus & Burkhardt AG website under http://www.hsbctrinkaus.de/global/display/wirueber-uns/berichteundinvestorrelations/corporategovernance.

71 Offices Held by Members of the Management Board

As at 31 December 2013, the members of the Management Board and of the Executive Committee of HSBC Trinkaus & Burkhardt AG sit on the following statutory supervisory boards or comparable management bodies: Manfred Krause (Management Board member until 2 July 2013), Florian Fautz and Stephen Price no longer held reportable offices during the relevant period. Norbert Reis (Management Board member since 1 January 2014) and Dr. Jan Wilmanns (Management Board member since 1 January 2014) were not represented in any reportable control bodies.

Andreas Schmitz (Chairman)	
Position	**Company**
Chairman of the Supervisory Board	Börse Düsseldorf AG, Düsseldorf
Deputy Chairman of the Supervisory Board (from 18 June 2013)	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Board of Directors	KfW-Bankengruppe, Frankfurt am Main
Member of the Board of Directors	Liquiditäts-Konsortialbank, Frankfurt am Main

Paul Hagen	
Position	**Company**
Chairman of the Advisory Board	SdB-Sicherungseinrichtungsgesellschaft deutscher Banken mbH, Berlin
Deputy Chairman of the Supervisory Board	HFI Hansische Vermögensverwaltungs Aktiengesellschaft, Hamburg
Deputy Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Deputy Chairman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Member of Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of the Supervisory Board (from 22 April 2013)	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf
Member of Supervisory Board	RWE Supply & Trading GmbH, Essen

Dr. Olaf Huth (until 4 June 2013)	
Position	**Company**
Chairman of the Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Deputy Chairman of the Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Deputy Chairman of the Supervisory Board (until 18 June 2013)	HSBC Trinkaus Real Estate GmbH, Düsseldorf
Member of the Supervisory Board (until 31 May 2013)	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of the Supervisory Board (until 22 April 2013)	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

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

Dr. Rudolf Apenbrink (Executive Committee member)	
Position	**Company**
Chairman of the Board of Directors	HSBC Global Asset Management (Switzerland) AG, Zurich, Switzerland
Member of the Board of Directors	HSBC Global Asset Management (France), Paris, France
Member of the Board of Directors	HSBC Global Asset Management (Turkey), Istanbul, Turkey
Member of Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

Dr. Christiane Lindenschmidt (Executive Committee member)	
Position	**Company**
Chairman of the Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf
Member of the Board of Directors	HSBC Securities Services S.A., Luxembourg
Member of Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf
Member of Supervisory Board	HSBC Trinkaus & Burkhardt (International) S.A., Luxembourg
Member of Supervisory Board	HSBC Trinkaus Investment Managers S.A., Luxembourg
Member of Supervisory Board	Internationale Kapitalanlagegesellschaft mbH, Düsseldorf

72 Offices Held by Other Members of Staff

As at 31 December 2013, the following employees sit on the following statutory supervisory boards or comparable control bodies of large corporations:

Dr. Michael Böhm	
Position	**Company**
Member of the Advisory Board	DPG Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH, Frankfurt am Main

Mark Cringle	
Position	**Company**
Member of Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

Thomas Fahlenbock	
Position	**Company**
Member of Supervisory Board	HSBC INKA Investment-AG TGV, Düsseldorf

Gerd Goetz	
Position	**Company**
Member of Supervisory Board	sino AG, Düsseldorf
Member of Supervisory Board	tick-TS AG, Düsseldorf

Dr. Detlef Irmen	
Position	**Company**
Member of Supervisory Board	HSBC Transaction Services GmbH, Düsseldorf

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

Martin Reichel	
Position	**Company**
Member of Supervisory Board	HSBC Global Asset Management (Deutschland) GmbH, Düsseldorf

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

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

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

73 Offices Held by Supervisory Board Members

The members of our Supervisory Board also sit on the following supervisory boards and comparable control bodies listed below:

Dr. Sieghardt Rometsch (Chairman)	
Position	**Company**
Chairman of the Board of Directors	Management Partner GmbH, Stuttgart

Samir Assaf	
Position	**Company**
Chairman	HSBC France, Paris

Peter W. Boyles (until 31 August 2013)	
Position	**Company**
Chairman	HSBC Bank A.S., Istanbul, Turkey
Deputy Chairman	HSBC France S.A., Paris, France
Member of the Supervisory Board	S.A. des Galeries Lafayette , Paris, France
Director	HSBC Bank plc, London, Great Britain
Director	HSBC Bank Malta plc, Valletta, Malta

Dr. Hans Michael Gaul	
Position	**Company**
Deputy Chairman of the Supervisory Board	BDO AG, Hamburg
Member of Supervisory Board	Siemens AG, Munich

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

Harold Hörauf (until 31 August 2013)	
Position	**Company**
Chairman of the Supervisory Board	HSBC US Buy-Out GmbH & Co. KGaA, Düsseldorf
Chairman of the Supervisory Board	Trinkaus Secondary Zweitausendsechs GmbH & Co. KGaA, Düsseldorf
Member of Supervisory Board	BVV Pensionsfonds des Bankgewerbes AG, Berlin
Member of Supervisory Board	BVV Versicherungsverein des Bankgewerbes a.G., Berlin
Member of Supervisory Board	BVV Versorgungskasse des Bankgewerbes e. V., Berlin

Simon Leathes	
Position	**Company**
Director – non-executive	HSBC Bank plc, London, Great Britain
Director – non-executive	Assured Guaranty Limited, Hamilton, Bermuda
Chairman of the Board of Directors – non-executive	Assured Guaranty (Europe) Limited, London, Great Britain
Chairman of the Board of Directors – non-executive	Assured Guaranty (UK) Limited, London, Great Britain
Director – non-executive	HSB-Engineering Insurance Limited, London, Great Britain

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

Hans-Jörg Vetter	
Position	**Company**
Chairman of the Supervisory Board	BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart
Chairman of the Supervisory Board	Herrenknecht AG, Schwanau
Chairman of the Supervisory Board	LBBW Immobilien Management GmbH, Stuttgart
Chairman of the Supervisory Board	LHI Leasing GmbH, Pullach
Chairman of the Supervisory Board	Süd Beteiligungen GmbH, Stuttgart
Member of Supervisory Board	Allgaier Werke GmbH, Uhingen
Member of Supervisory Board	Deutscher Sparkassen Verlag GmbH, Stuttgart
Member of Supervisory Board	Wieland-Werke AG, Velbert

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The Annual Report will be released for publication on 25 February 2014.

Düsseldorf, 12 February 2014

Andreas Schmitz

Paul Hagen

Norbert Reis

Carola Gräfin v. Schmettow

Auditor’s Report

We have audited the consolidated financial statements, comprising the balance sheet, the statement of comprehensive income, the statement of changes in shareholders’ equity and cash flows, notes to the financial statements as well as the group management report prepared by HSBC Trinkaus & Burkhardt AG for the business year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as they are to be applied in the EU, and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 German Commercial Code (HGB), is the responsibility of the Management Board. Our responsibility is to express an opinion on these consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Auditors (Institut der Wirtschaftsprüfer ~ IDW). Those standards require that we plan and perform the audit such that it can be recognized with reasonable assurance whether there are inaccuracies and irregularities which have a substantial impact on the view of the net assets, financial position and earnings situation given by the consolidated financial statements observing the accounting provisions to be applied and by the group management report. Knowledge of the Group’s business activities and its economic and legal environment and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system as well as evidence supporting the amounts and disclosures in the consolidated financial statements and the group management report are examined mainly on a test basis within the framework of the audit. The audit comprises assessing the annual financial statements of the companies included in the consolidated financial statements, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that the audit provides a sufficiently sure basis for our opinion.

Our audit has not led to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements are in accordance with IFRS as they are to be applied in the EU and the commercial law provisions to be applied additionally in accordance with Section 315a para. 1 HGB and give, observing these provisions, a true and fair view of the net assets, financial position and earnings situation of the Group. The group management report is in keeping with the consolidated financial statements, provides on the whole an accurate picture of the Group’s position and suitably presents the opportunities and risks of future development.

Düsseldorf, 19 February 2014

KPMG AG Wirtschaftsprüfungsgesellschaft

Signed by Dr. Hübner
Auditor

Signed by Bormann
Auditor

Report of the Supervisory Board

Management

At four meetings conducted during the 2013 financial year, the Supervisory Board received comprehensive reports from the Management Board on the development of business at the Bank, its major subsidiaries and individual business areas. The reports given by the Management Board to the Supervisory Board addressed current business development against target figures and the figures of the corresponding period of the previous year, risk management aspects, external audit activities, and corporate governance issues. The Bank's investment securities (including the relevant valuation) and liquidity situation were also presented to the Supervisory Board. Reports submitted on material individual transactions included the Bank's withdrawal from Luxembourg as well as its growth initiative in Germany, the latter being subject to in-depth discussions. As a result of these discussions, the Supervisory Board unanimously supports the Management Board in its strategic positioning designed to boost business with internationally active corporate clients.

The auditor took part in the Supervisory Board's meeting regarding the financial statements for the previous year. The Supervisory Board has delegated the appointment of the auditors for the audit of the annual financial statements, and the consolidated financial statements, to its Audit and Risk Committee. The auditor participated in the relevant committee meeting, presenting objectives, methods and focal points of the 2013 audit plan in great detail. As a result of this presentation, the auditor was mandated to perform the audit of the annual financial statements and the consolidated financial statements, on the basis of the appropriate fee structure agreed.

In July 2013, the Supervisory Board approved Mr Manfred Krause's request for early termination of his term of office as a Management Board member. Furthermore, the Supervisory Board approved the revised assignment of responsibilities amongst the members of the Management Board, according to which Mr Schmitz will assume responsibility for Commercial Banking. With the approval of the Supervisory Board's Human Resources Committee, the Management Board has appointed Mr Stephen Price as a member of the Executive Committee, with responsibility for Commercial Banking. Following Dr Huth's retirement from the Management Board, effective upon the end of the Annual General Meeting 2013, and Mr Krause's retirement the number of Management Board members temporarily reduced to three. In December 2013, the Supervisory Board appointed Mr Norbert J. Reis as a member of the Management Board, with effect from 1 January 2014. Mr Reis has taken over responsibility for the Global Banking division from Mr Schmitz. Following the appointment of Mr Reis, the Management Board now once again comprises four members.

Activities of the Supervisory Board's committees

In order to permit the more efficient handling of selected management issues, the Supervisory Board set up four separate committees from amongst its members in 2013. Specifically, the following committees were established:

- **the Mediation Committee**, whose task it is to submit a proposal to the Supervisory Board if the appointment of a member to the Management Board failed to achieve the required two-thirds majority;
- **the Nomination Committee**, which nominates candidates to be proposed by the Supervisory Board for election to the Supervisory Board by the General Meeting;
- **the Remuneration Committee**, whose responsibilities include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board, the long-term successor planning in cooperation with the Management Board, the handling of conflicts of interests of Management Board or Supervisory Board members, as well as the approval of loans from

the Bank to its employees and their family members, or to members of the Supervisory Board;

- **the Audit and Risk Committee** which, in addition to the issuing of the audit mandate to the auditor, is responsible for the determination of the focal points for the audit, monitoring the auditor's independence and concluding a fee agreement with the auditor. The Committee also handles accounting and fundamental risk management issues, as well as regularly discussing the audit findings of Internal Audit and external auditors. The Supervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act (Kreditwesengesetz) – particularly with regard to connected-party loans to enterprises. The Audit and Risk Committee also discusses the risk management strategy with the Management Board, responsible for devising it.

The Mediation Committee has four members, the Nomination Committee has three, the Remuneration Committee five, and the Audit and Risk Committee four members. In line with legal requirements and the recommendations set out by the Corporate Governance Code, the chairperson of the Supervisory Board chairs the Mediation Committee, the Nomination Committee, and the Remuneration Committee.

In accordance with the new requirements under section 25d of the German Banking Act (Kreditwesengesetz – "KWG"), effective 1 January 2014, in its November 2013 meeting the Supervisory Board split the Audit and Risk Committee into two separate committees, extended the duties of the Remuneration Committee to include those of a Remuneration Control Committee, and also assigned responsibilities for Management Board matters to the Nomination Committee.

The Remuneration Committee met four times over the course of the year. The Audit and Risk Committee met seven times (on three occasions in the form of a conference call).

The Remuneration Committee submitted proposals concerning Management Board remuneration to the Supervisory Board, and discussed the Bank's remuneration system with the Management Board. Moreover, the Committee concerned itself with succession arrangements, for the Management Board as well as for the Bank's top management level reporting directly to the Management Board. The Committee recommended to the Supervisory Board to approve Mr Krause's retirement, as well as to appoint Mr Reis to the Management Board. Furthermore, the Committee approved various appointments of Managing Directors of subsidiaries, and the appointment of two Executive Committee members.

Discussions in the Audit and Risk Committee focused on allowance for credit losses; related discussions covered both the overall credit risk strategy (which was also discussed by the plenary meeting of the Supervisory Board) and individual exposures. Against the background of the Bank's growth strategy, its credit risk strategy has been thoroughly revised. Moreover, the Audit and Risk Committee carried out all regular tasks delegated to it by the Supervisory Board in the course of all Committee meetings.

The Audit and Risk Committee duly noted and discussed reports submitted by Internal Audit, the Compliance Officer, the Money Laundering Prevention Officer and the Head of the Legal Department during its plenary meetings; moreover, reports submitted by the external auditors were noted and discussed during two meetings. During three conference calls, the Committee discussed the draft quarterly reports prior to publication.

Corporate Governance

During its meetings in February and November, the Supervisory Board discussed the German Corporate Governance Code and its implementation by the Company. The 2013 Corporate Governance Report, which details and explains the deviations from the recommendations of the Government Commission "German Corporate Governance Code", is included in this Annual Report. Together with the Declaration of Compliance pursuant to section 161 of the AktG, the report is also available for download from the Bank's website.

In its efficiency examination, the Supervisory Board concluded that in view of the personal professional qualifications of individual members of its body, it had no concerns whatsoever regarding their suitability. To assess and determine its efficiency, the Supervisory Board carried out a self-evaluation as recommended by the German Corporate Governance Code.

The information given to the Supervisory Board satisfied all legal requirements and, in particular with regard to the depth of information provided on risks and to the supplementary presentations on new products, services and the activities of selected business areas, exceeded the requirements of the AktG. The Supervisory Board therefore concluded that comprehensive information had been provided. The external auditors' report contained no findings which had not previously been reported on, and examined at, Supervisory Board meetings. The Supervisory Board therefore concluded that it had carried out its business efficiently.

During the 2013 financial year, no conflicts of interest were detected between the Bank and members of the Supervisory Board or others for whom a member of the Supervisory Board acted in an advisory or executive capacity. The Supervisory Board's Audit and Risk Committee satisfied itself of the independence of the external auditors and the individual persons acting on their behalf.

Annual financial statements

The Supervisory Board has examined the annual financial statements of the Bank for the year ending 31 December 2013, as well as the 2013 Management Report and the proposal of the Management Board for the appropriation of profit, and gave approval in its meeting on 30 April 2014. The Annual General Meeting held on 04 June 2013 appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the auditors for the financial statements and consolidated financial statements. The Supervisory Board's Audit and Risk Committee commissioned the auditors to carry out the audit of the financial statements and the consolidated financial statements on 25 September 2013. KPMG have audited the Bank's books, its annual financial statements and the Management Report for the year ending 31 December 2013, and have issued their unqualified audit opinion. The audit report was submitted to the Supervisory Board; no objections were raised.

The consolidated financial statements for the year ended 31 December 2013 were prepared under International Financial Reporting Standards (IFRS) in a manner which also addressed the requirements of the German Commercial Code (Handelsgesetzbuch – "HGB"). These financial statements were also audited by KPMG and given an unqualified opinion. Both the consolidated financial statements and the audit report were submitted to the Supervisory Board, and approved by it, in its meeting on 30 April 2013.

Relationships with affiliated enterprises

In accordance with section 312 of the AktG, the Management Board has prepared a report on the Bank's relationships with affiliated enterprises for the 2013 financial year. Pursuant to section 313 of the AktG, the auditor provided this report with the following audit opinion: "Having duly examined and assessed this report in accordance with professional standards, we confirm that (1) the report is free from factual misrepresentations, and (2) that the company did not pay any excessive consideration with regard to the transactions identified in the report." The Supervisory Board duly noted and approved this report.

Personnel changes within the Supervisory Board

During the 2013 financial year, Messrs Harold Hörauf and Peter Boyles retired from the Supervisory Board. The Supervisory Board thanks both gentlemen for their valuable contributions to the work of the Supervisory Board, and the trusting cooperation. They were succeeded by Messrs Alan Keir and Simon Leathes.

Recognition

The Supervisory Board thanks the members of the Management Board for their open and trustworthy cooperation. The Supervisory Board would also like to extend a special thank-you to the staff whose work in the past year has made an essential contribution to the Bank's success.

Düsseldorf, April 2014

The Supervisory Board

Sieghardt Rometsch

Dr Sieghardt Rometsch
Chairman

Report on Corporate Governance in 2013

Corporate Governance as an integral part of our corporate culture

The German Corporate Governance Principles, as we have adopted them in our Declaration pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz – "AktG") – as shown below, are integral to the corporate culture of HSBC Trinkaus & Burkhardt. An open information policy toward our shareholders, clear management structures, transparency of 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 the national and international financial markets. Our Code of Conduct sets out our understanding of corporate values and behavioural standards. Our Management Board and staff have given a written commitment that they will comply with this Code of Conduct.

Both management and representation of the Bank are the responsibility of a Management Board, presently consisting of four members. At the end of 2013, the Management Board was assisted by four Divisional Board members responsible for the Commercial Banking, Investment Banking, Technology and Services, and Asset Management businesses. The Bank's organisational structure – including the responsibilities of the individual members of the Management Board for their specific business areas, and central functions – is described in the chapter "Business areas" of the Annual Report.

Composition of the Supervisory Board

The Management Board is subject to the supervision of a Supervisory Board, which is in turn subject to co-determination provisions. The Supervisory Board comprises 16 members, shareholders and employees being represented by eight members each.

The Supervisory Board currently has three female members. As the largest shareholder (holding a stake exceeding 80 %), HSBC has two representatives on the Supervisory Board, neither of whom is a German national. LBBW, the second largest shareholder (holding a stake of just under 19 %), has one representative on the Supervisory Board. Of the eight shareholder representatives, six individuals hold professional experience obtained in senior positions in the banking sector; the two other individuals have each gained their experience in similar positions in other business sectors. In addition to the two HSBC representatives, one shareholder representative is not a German national.

Against this background, the Supervisory Board has formulated the following objectives for its composition, as provided by the German Corporate Governance Code:

- The composition of the Supervisory Board shall be determined in the interest of the Company. The members of the Supervisory Board must be reliable, in line with the legal requirements applicable for credit institutions, and must have the professional aptitude necessary for carrying out their control functions, and also to assess and verify the Bank's business activities. The number of independent shareholder representative should be at least five.

- One of the factors determining the Bank's business model is its close integration into the HSBC Group's global network. Accordingly, the Supervisory Board should always have at least two individuals holding senior positions at HSBC – with experience and expertise in the international business – as is the case now.

- Conflicts of interest affecting Supervisory Board members prevent them from giving independent and efficient advice to, and supervising the Management Board. The Supervisory Board will decide on how to deal with any conflicts of interest which may arise on the merits of each individual case. In principle, any individual holding an office with one of the Bank's material competitors might be disqualified from election to the Bank's Supervisory Board. Since LBBW, the Bank's second-largest shareholder (holding a stake of just under 19 %), only competes with the Bank in certain business sub-segments, it should retain one representative on the Supervisory Board in the future.

- The Supervisory Board does not consider any fixed age limit for membership of the Supervisory Board to be sensible. A fixed age limit would oblige the Bank to make a change in Supervisory Board membership even when a member, notwithstanding his or her age, was providing valuable contributions for the Bank. Also, such a limit would contradict the general trend of postponing the statutory retirement age. Therefore, the Bank will continue not to comply with this recommendation of the Code.

- In 2010, the Supervisory Board expressed its plans to raise the representation of women on the Supervisory Board from then two members by seeking the election of at least one more female member; at present, there are three female members. As in the past, when proposing candidates for election to shareholders, the Supervisory Board will solely consider the Company's best interests – without any regard to race, ethnic origin, gender, age, religion or political views.

Supervisory Board Committees

The Supervisory Board set up four separate committees from amongst its members in 2013:

- the Mediation Committee, whose task it is to submit a proposal to the Supervisory Board if the appointment of a member to the Management Board failed to achieve the required two-thirds majority;

- the Nomination Committee, which nominates candidates to be proposed by the Supervisory Board for election by the General Meeting;

- the Remuneration Committee, whose responsibilities include preparing Supervisory Board resolutions regarding personnel matters concerning the Management Board), the long-term successor planning in cooperation with the Management Board, the handling of conflicts of interests of Management Board or Supervisory Board members, as well as the approval of loans from the Bank to its employees and their family members, or to members of the Supervisory Board;

- the Audit and Risk Committee which, in addition to the issuing of the audit mandate to the auditor, is responsible for the determination of the focal points for the audit, monitoring the auditor's independence and concluding a fee agreement with the auditor. The Committee also handles accounting and fundamental risk management issues, as well as regularly discussing the audit findings of Internal Audit and external auditors. The Supervisory Board has delegated to the Committee, inter alia, the power to express reservations of approval with regard to any loans that require Supervisory Board approval – either pursuant to the Bank's internal regulations or to the provisions of the German Banking Act (Kreditwesengesetz) – particularly with regard to connected-party loans to enterprises. The Audit and Risk Committee also discusses the risk management strategy with the Management Board, responsible for devising it.

Resolutions of the Supervisory Board and its committees shall be adopted with a simple majority of votes cast, unless mandatory law provides otherwise. All the committees of the Supervisory Board consist of between three and five members. The chairperson of the Supervisory Board only chairs the Mediation, Nomination and Remuneration Committees. The members of the Management Board, Supervisory Board and of the Supervisory Board's committees are listed in the Annual Report, Chapter 'Boards and Committees'. The Report of the Supervisory Board on its activities during the financial year under review, which has also been included in our Annual Report, describes in more detail the number of Supervisory Board and committee meetings as well as the specific items discussed during the financial year under review.

Reporting duties regarding transactions in HSBC Trinkaus & Burkhardt shares as well as rights to those shares in accordance with Section 15a of the German Securities Trading Act ("WpHG")

In 2013, no transactions in HSBC Trinkaus & Burkhardt shares or any rights to those shares which would require a disclosure under section 15 a of the WpHG and subsection 6.3 of the Corporate Governance Code have been made by persons who are subject to a reporting requirement.

Continuous monitoring

We have entrusted the Bank's Company Secretary with the day-to-day monitoring of the strict observance of the Corporate Governance rules in our daily business. During the 2013 financial year, no infringements of the rules were identified, neither in terms of the form nor the content and spirit of the Corporate Governance Code. .

Declaration pursuant to section 161 of the German Public Limited Companies Act (AktG) of the Management Board and the Supervisory Board regarding the German Corporate Governance Code

The Management Board and the Supervisory Board of HSBC Trinkaus & Burkhardt AG declare that, subject to the exceptions and/or modifications as set out below, they have complied with the recommendations of the "Government Commission for the German Corporate Governance Code", as published in the official section of the web-based Federal Gazette in the version of 13 May 2013, and that they will continue to comply with this Code in the future.

The provisions in section 4.2.5 of the Code concerning disclosure of personalised remuneration details for members of the Management Board are not applicable to the Bank since the General Meeting on 5 June 2012 resolved, with the requisite three-quarters majority, to refrain from disclosing such personalised information.

Section 5.4.1 is not implemented, to the extent that it provides for an age limit for Supervisory Board members. Such a limitation would needlessly restrict the Company's flexibility, since a fixed age limit would require a change in Supervisory Board membership even when a member, notwithstanding his or her age, was performing highly valuable services for the Bank.

The recommendation of the Government Commission in section 5.4.3 of the Corporate Governance Code has been implemented with the modification that elections to the Supervisory Board will only be made on an individual basis if a shareholder has presented a motion to this effect at the Annual General Meeting for which the election is scheduled. This regulation provides sufficient protection to shareholders whilst at the same time granting the necessary organisational flexibility.

Furthermore, the Company has refrained from adopting the recommendation of the Government Commission in sentence 3 of section 5.4.3 of the Code that the shareholders should be notified, in advance, of the candidates for an upcoming election of the chairperson of the Supervisory Board. According to the Articles of Association of HSBC Trinkaus and Burkhardt AG, the term of office for which members of the Supervisory Board are elected ends on the same date for all members, so that new elections at the end of a term are automatically new elections of the entire Supervisory Board. Upon such a complete new election, the newly-elected members convene immediately after the Annual General Meeting in which the election took place in order to appoint one of their number as the chairperson. An earlier announcement of the candidates for the chairmanship by the old Supervisory Board (as recommended by the Code) would pre-determine and limit the freedom of the new Supervisory Board to appoint its chairperson. Even though the newly elected Supervisory Board would not be bound by the announcements of candidates proposed by the old Supervisory Board, any deviation from such proposals would result in negative publicity detrimental to the Bank.

The recommendation in section 5.4.6 concerning disclosure of individualised details of the remuneration of Supervisory Board members (including fees for personal advisory or intermediation services rendered) in the Corporate Governance Report, has not been adopted. The Group Management Report of HSBC Trinkaus & Burkhardt AG contains details regarding the remuneration of Supervisory Board members. Such disclosure would constitute a gross interference with Supervisory Board members' right of privacy – particularly with respect to fees for personal services rendered, such as advisory services – without a strict necessity for such interference.

The Government Commission's Recommendation in section 6.1 is applied, with the clarifying note that parity of information between shareholders, financial analysts and comparable recipients is limited to information which may have an impact on the share price. For the purpose of clearly defining the scope of "passing on of information", expressions of opinion by members of the executive bodies in the press and other media, as well as background discussions with financial analysts and rating agencies, do not constitute "new facts" within the meaning of section 6.1 of the Code.

Varying from section 7.1.2, HSBC Trinkaus & Burkhardt AG will observe the statutory deadlines for the preparation of its consolidated financial statements and interim reports, to enhance its timing flexibility in preparing such statements and reports.

HSBC Trinkaus & Burkhardt AG will comply with the recommendation in section 7.1.4 subject to the legal disclosure thresholds being reached; this reference helps to avoid any interpretation issues.

Düsseldorf, February 2014

For the
Management Board:

Andreas Schmitz
- Chairman -

For the
Supervisory Board

Dr Sieghardt Rometsch
- Chairman -

Responsibility Statement by the Management Board

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, 12 February 2014

Andreas Schmitz

Paul Hagen

Norbert Reis

Carola Gräfin v. Schmettow

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Interpretation and evaluation of statements about the future

This Annual Report provides information on the results of the HSBC Trinkaus & Burkhardt Group for the past financial year. The information is based on the consolidated figures at the close of the 2013 financial year in accordance with International Financial Reporting Standards and as audited by the auditors of our Consolidated Statements. To allow you to evaluate our consolidated financial statements, general economic data and data in relation to financial markets as they evolved during the past year have also been included. In addition, this publication contains statements of our expectations concerning our Group's progress during 2014. Such statements about the future can be found above all in the Letter from the Management Board to our shareholders in the 'Outlook for 2014' section, in the section on our company's strategy as well as in many other places throughout this Annual Report. These statements about the future are based on our assessments of future economic and political developments and on our assumptions about the effects these will have on business progress and our related business plans. All statements about the future in the form of assumptions, expectations and future plans represent our assessments and forecasts up to the date on which we formulated them. Any changes subsequent to that date in macroeconomic data, in the political or regulatory environment, or in the foreign-exchange or capital markets, as well as unexpected losses in lending business or with counterparties in trading activities, or the occurrence of other events, may lead to our forecasts and expectations for the 2014 financial year becoming obsolete or outdated. We accept no obligation to adjust our forecasts, assumptions and expectations in the light of new information or in line with subsequent events to reflect the new level of knowledge, nor to update our Annual Report through subsequent publication of such changes.

Key Dates

14 May 2014
Interim Report as at 31 March 2014

3 June 2014
Annual General Meeting

27 August 2014
Press conference
Interim Report as at 30 June 2014

11 November 2014
Interim Report as at 30 September 2014

Five-year Comparison of Consolidated Figures in €m

IFRS consolidated financial statements in €m	2013	2012*	2011	2010	2009
Total assets	19,809.7	20,047.8	20,635.2	18,584.0	18,728.6
Assets					
Cash reserve	1,133.7	265.0	672.2	336.1	177.0
Loans and advances to banks	1,643.8	1,551.2	1,857.6	1,402.9	2,429.4
Loans and advances to customers	4,857.6	4,554.3	3,717.2	3,089.6	2,687.5
Net loan impairment and other credit risk provisions	−33.4	−25.2	−27.1	−49.1	−42.9
Trading assets	6,753.6	8,261.5	9,852.3	10,130.6	10,005.7
Financial assets	5,124.8	5,068.3	4,164.7	3,305.9	3,126.1
Share of profit in associates	54.5	55.1	65.2	38.0	10.6
Property, plant and equipment	83.8	80.6	79.3	83.1	83.3
Intangible assets	15.9	23.7	31.3	38.9	44.1
Taxation recoverable	10.9	1.2	9.4	4.3	13.0
Current	5.2	1.2	8.6	4.3	13.0
Deferred	5.7	0.0	0.8	0.0	0.0
Other assets	164.5	212.1	213.1	203.7	194.8
Liabilities					
Deposits by banks	1,269.4	1,219.5	749.6	1,180.4	2,697.6
Customer accounts	12,219.1	11,880.4	12,413.3	10,148.0	9,062.1
Certificated liabilities	10.0	10.0	10.0	10.0	10.0
Trading liabilities	4,099.9	4,721.9	5,426.0	5,200.1	5,196.7
Provisions	142.7	136.6	103.4	96.5	152.2
Taxation	39.9	65.8	48.3	66.7	67.7
current	39.9	53.4	48.3	52.6	61.1
deferred	0.0	12.4	0.0	14.1	6.6
Other liabilities	229.3	275.0	235.0	214.1	95.3
Subordinated capital	345.7	353.4	353.4	378.4	384.4
Shareholders' equity	1,453.7	1,385.2	1,296.1	1,289.7	1,062.5
Minority Interests	0.0	0.0	0.1	0.1	0.1
Income statement					
Net interest income	165.8	175.7	148.9	128.7	143.3
Net loan impairment and other credit risk provisions	10.9	0.9	−12.7	7.7	22.4
Share of profit in associates	0.3	−8.1	0.7	0.4	0.6
Net fee income	401.1	383.7	385.5	404.0	346.2
Net trading income	95.7	161.8	116.8	120.4	123.0
Administrative expenses	486.2	495.0	466.8	439.3	400.8
Income from financial assets	16.3	9.1	−4.8	−0.6	−24.0
Net other income	37.0	−8.4	17.6	4.1	−2.2
Pre-tax profit	219.1	217.9	210.6	210.0	163.7
Tax expenses	63.8	85.9	73.3	70.6	54.5
Net profit	155.3	132.0	137.3	139.4	109.2

* Prior year's figures adjusted. The adjustments are explained in Note 18.